Russian-American trade, a study of the Soviet foreign-trade monopoly.

Condoide, Mikhail Vladimir.

Columbus, O. : Bureau of Business Research, College of commerce and administration, the Ohio state university, [1946]

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RUSSIAN-AMERICAN TRADE

MIKHAIL V. CONDOIDE

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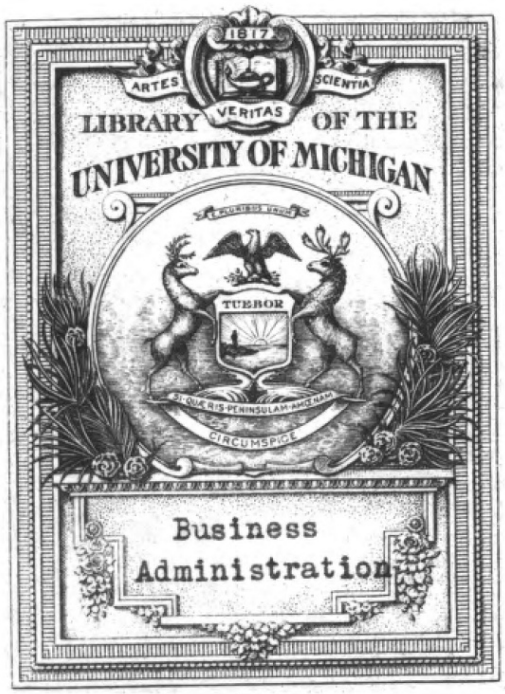

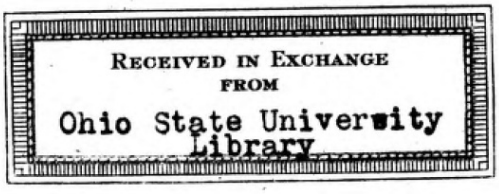

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RUSSIAN-AMERICAN TRADE

A STUDY OF THE SOVIET FOREIGN-TRADE MONOPOLY

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Published by
THE BUREAU OF BUSINESS RESEARCH
COLLEGE OF COMMERCE AND ADMINISTRATION
THE OHIO STATE UNIVERSITY
COLUMBUS, OHIO

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FOREWORD

In this study there is presented, in concise form, the record of the trade relations between the United States and Russia over a long period of time, with particular emphasis on the period between World War I and World War II. The changes in the political, social and economic institutions of Russia after World War I were so drastic as vitally to affect the trade relations with the outside world. Therefore, as we look ahead to the expansion of trade relations with Russia, it is important to have a clear understanding of the place that foreign trade occupies in the total Soviet economic plan, and the way in which foreign-trade procedures and functions are organized within that plan. For this reason, the main emphasis in this study is directed toward an understanding of the Soviet foreign-trade monopoly and its implications for future Russian-American trade relations.

This study was sponsored jointly by the Department of Economics and the Bureau of Business Research of The Ohio State University.

VIVA BOOTHE, *Director*

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PREFACE

With the end of World War II, the nations of the world will gradually restore their peace economies, and will devote their energies to the repair of the ravages inflicted upon them by the war. Slowly peaceful economic relations among nations will be resumed. The tasks ahead are staggering, consequently frictions and disagreements between nations will only retard and make more difficult the restoration of peaceful economic intercourse among the nations of the world.

The war taught the lesson to the world that no nation can be completely self-sufficient and entirely independent of influences exerted, willingly or unwillingly, by big or even by small states. Obviously, some nations, like the United States and Soviet Russia, because of their vast geographic dimensions, large populations, and wealth in natural resources, are far less affected by the behavior of other nations. But even they cannot isolate themselves from the world and become entirely immune from and indifferent to what other nations do. Both the United States and the U.S.S.R. attempted to isolate themselves from the world between 1920 and 1940; the United States politically; Soviet Russia, politically and economically. However, both of these powers were drawn into the war, however much they may have wished to stay out of it.

The United States and the U. S. S. R. are the two leading powers of the world. Soviet Russia occupies one-fifth of the world's surface, and is inhabited by a heterogeneous population of some 180 to 190 million people. There have been times when the relations between the two countries have not been cordial. Many of the past and present misunderstandings between them have been largely due to mutual distrust. Some of this distrust can be attributed, no doubt, to ignorance of each other; possibly most of it.

It is unfortunate that there is little dependable information on the social and economic character of Soviet Russia within easy reach of the general public, and it is to be hoped that with the

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restoration of peace, closer relations will be established between these two great nations. A greater number of Americans will go to Russia and acquaint themselves with Russian civilization, and a large number of Russians will study in this country and get a better understanding of the conditions of life, aims, and culture of the United States of America. A fairly large number of Russian periodicals and books is received in the United States, but, unfortunately, most of this material lies unused in different libraries because of unfamiliarity with the Russian language, although, much of it, in the opinion of the writer, is of great value and ought to be translated into English. In this study, the author used Russian sources, when available, which were supplemented by literature published in Western Europe and the United States in the last twenty-five years.

It is most interesting to students of economics to observe the genesis and gradual development of an economic system radically different from that prevailing in the Western world. Soviet Russia has developed a planned economy. Moreover, this economic system seems to have withstood the tests of war, and all indications are that planned economy will be further developed and refined in Soviet Russia.

It is the hope of the writer that this little study will contribute to a better understanding of the operation of the Russian economic system and of its aims, although it deals with only a very small segment of this highly complex system. The first part of this volume outlines the chief characteristics of the Russian economy and of its operation. Planning is the principal feature of the Soviet economic structure. Without a monopoly of foreign trade, planning in Soviet Russia would have little effectiveness; consequently, the monopoly of foreign trade is one of the most important instruments in the hands of the Soviet Government for regulating the internal economic life of Russia. The theory and practice of the monopoly of foreign trade is therefore examined. The second part of this publication deals with trade relations of Soviet Russia with the world, followed by a discussion of the diplomatic and commercial relations between the United States

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and the U. S. S. R. This analysis is based on statistics of trade between the two nations.

The writer is greatly indebted to Dr. Clifford L. James of the Department of Economics of Ohio State University, under whose guidance and sympathetic criticism this study first took shape, and to Dr. H. Gordon Hayes, of the same Department, for a number of valuable suggestions. To Dr. Viva Boothe, Director of the Bureau of Business Research, Ohio State University, great thanks are extended for her generous and wise counsel in revising this manuscript and patience in editing it for publication. My thanks go also to members of the Bureau who did the typing and proof-reading of this study.

Throughout this work the writer has attempted to maintain an objective approach, and, naturally, the views expressed and the conclusions reached are entirely his own.

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TABLE OF CONTENTS

Chapter	*Page*
I—Russian Foreign Trade before 1914	1
Pre-1914 Character of Russian Imports and Exports	2
Russia's Foreign Indebtedness Prior to World War I	5
II—The Soviet Economic System	10
Planning	10
Economic Organization and Concepts	16
III—Foreign Trade in the Soviet Economy	23
General Principles of Soviet Foreign Trade	23
Evolution of the Organizational Forms of Soviet Foreign Trade	38
Financing Foreign Trade	45
IV—Foreign-Trade Policies and World Trade of Soviet Russia	54
Foreign-Trade Policies	54
Trend in World Trade of the U. S. S. R.	64
V—Political and Economic Relations between the United States and Russia	75
Trade Relations at the Beginning of World War I	75
Trade Relations with the Soviet Government	76
Special Trade Agreements	85
VI—Trade of the United States with the U. S. S. R.	89
Volume of Trade before World War I	89
Volume of Trade during and after World War I	90
Trade of the United States with the U. S. S. R. in Relation to Total Foreign Trade of the United States	93
Trade of the U. S. S. R. with the United States in Relation to Total Foreign Trade of the U. S. S. R.	94
VII—Conclusions	108
Appendix	
A—(See list of Tables)	
B—Historical Review of Early Trade Relations of the United States and of the U. S. S. R.	117
C—Text of the 1832 Treaty of Navigation and Commerce—Russia: December 18, 1832	121
D—Documents Relating to the Concluding of Commercial Agreements between the United States and the U. S. S. R. since July 13, 1935	129
E—List of Individual Commodities Imported into the United States from the U. S. S. R., 1925-1941	147
Bibliography	150
Index	155

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LIST OF TABLES

In Text

Table	*Page*
1—Composition of Russian Foreign Trade, Selected Years, 1894-1913	3
2—Geographical Distribution of Russian Foreign Trade, Selected Years, 1894-1913	3
3–Russian War Debts to the Principal Allied Nations, as of October, 1917	6
4—Changes in Russian Foreign Trade, 1913-1917	8
5—Revenue from the Turnover Tax, 1931-1938	19
6—Percentage Distribution of Russian Exports and Imports, Selected Countries, 1924-1938	30
7—Balance of Payments of the U. S. S. R., 1935 and 1936	53
8—Normal Tariff Rates of the U. S. S. R.	57
9—Value of Total World Trade and of the Foreign Trade of the U. S. S. R., 1911-1938	63
10—Value of Foreign Trade of the U. S. S. R., 1909-1938	65
11—Volume of Foreign Trade of the U. S. S. R., 1909-1938	66
12—Value and Percentage Distribution between Capital-Goods and Consumers'-Goods Imports of the U. S. S. R., 1909-1937	68
13—Value and Percentage Distribution of Total Imports of the U. S. S. R., by Type of Commodity, 1929-1937	71
14—Value and Percentage Distribution of Total Exports of the U. S. S. R., 1909-1937	72
15—Percentage Distribution of Exports of the U. S. S. R. between Raw Materials and Manufactured and Semi-Manufactured Products, 1913-1936	72
16—Exports of Grain from the U.S.S.R., by Five-Year Periods, 1909-1937	73
17—Index of Grain Exports from the U. S. S. R., by Five-Year Periods, 1909-1937	74
18—Total Foreign Trade of the United States, and the Amount and Percentage of the Total with the U. S. S. R., 1915-1942	91
19—Trade of the U. S. S. R. with the United States: Amount and Percentage of Russia's Total Trade, 1926-1938	94
20—Value and Percentage Distribution of Exports of the U. S. S. R. from the United States, by Type of Commodity, 1913-1937	

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Page

21—Value and Percentage Distribution of Imports of the U. S. S. R. from the United States, by Type of Commodity, 1913-1937.....

22—Total United States Exports of Machinery Equipment, and Total Machinery-Equipment Exports to the U. S. S. R., 1929-1934.... 97

23—United States Imports from the U. S. S. R., by Groups of Commodities, 1937-1940..... 99

24—United States Exports to the U. S. S. R., by Groups of Commodities, 1937-1940..... 101

25—United States Exports to the U. S. S. R., by Type of Commodity, 1940 and 1941..... 103

26—Exports from the United States to the U. S. S. R., by Groups of Commodities, January-June, 1945..... 105

27—General Imports of the United States from the U. S. S. R., by Groups of Commodities, January-June, 1945..... 106

In Appendix

Appendix

A—Table 1—Value and Percentage Distribution of Russian Exports, by Country and by Selected Year, 1894, 1903, and 1913.. 115

B—Table 2—Value and Percentage Distribution of Russian Imports, by Country and by Selected Year, 1894, 1903, and 1913.. 116

LIST OF CHARTS

Chart

1—Percentage Distribution of Russian Exports and Imports by Region, for Selected Years..... 4

2—Percentage Distribution of Russian Exports and Imports by Country, 1924-1938..... 31

3—Value and Percentage Distribution of Total Imports of the U. S. S. R., 1929-1937..... 69

4—Trade of the United States with the Union of Soviet Socialist Republics, 1915-1942..... 90

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CHAPTER I

RUSSIAN FOREIGN TRADE BEFORE 1914

The revolution of 1917 transformed Russia from a nation with a weak capitalist economy, severely exhausted by World War I and the subsequent three years of civil war, into a country with a socialist economy. After more than two decades of hard work and great social strain, Russia's new economic system has become industrially independent among the more advanced Western nations.

The economic structure of Soviet Russia differs in many significant respects from the economic systems of the major industrial nations of the world. A study, therefore, of the organization and operation of the Russian economic system with all its successes and failures is of especial interest, particularly since it has been able to withstand the onslaught of the German armies since June, 1941. Furthermore, there is little reason to expect that there will be any radical changes in the basic characteristics of the Soviet economic system in the foreseeable future. This system has been slowly and painfully developing since 1918, continuously adapting and adjusting itself to changing world conditions. The changes, however, have been of relatively minor importance and have not affected the basic characteristics of the Russian economy, such as the planning, the monopoly of foreign trade, and the management of international finance. With the end of present hostilities and the reestablishment of peace, Soviet Russia will become the most powerful nation in Europe and Asia, and as such will exert a profound influence on the destiny of the world. It is important, therefore, to be informed about her economic system and its operation, especially in the field of international economic relations. For these reasons, an attempt is made to explain briefly the reasons for the establishment of a foreign-trade monopoly by Soviet Russia, the methods of its operation, and its effect on the

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Russian economy. In addition, an analysis of the trade between the United States and Russia is made, with a brief discussion of the relative importance of this trade to both Russia and the United States.

In order to have a better picture of the changes which have taken place in Russia since 1917, a brief survey is made of the foreign trade of Czarist Russia, and Russia's international position in the economy of the world at the beginning of the twentieth century.

Pre-1914 Character of Russian Imports and Exports

Prior to 1914, Russia's exports were chiefly the products of her extractive industries, of which agriculture was the most important. Thus, in 1913, about 74 per cent of the total value of exports consisted of agricultural products. Farm exports in the order of their importance were as follows: cereals (wheat and barley), eggs, butter, sugar, flax, seeds, hides, and skins. The class next in importance was timber, chiefly in the form of boards, logs, and pulp. In the nonagricultural, raw and semimanufactured materials, the most important commodity was petroleum. Cotton textiles constituted over one-half of the manufactured goods exported.

The largest class of Russia's imports consisted of raw materials and semimanufactured goods. In the order of their importance the other commodity groups ranked as follows: (1) manufactured articles, (2) foodstuffs, and (3) live animals. Machinery of various kinds was the largest single item of import; then came raw cotton, wool, and silk; oils and chemicals; coal and coke; textiles; tea, etc. During the twenty-year period preceding World War I there was little variation in the kinds of commodities exported and imported (Table 1).

While the commodity composition of Russian exports and imports varied only within a narrow range prior to World War I, the geographical direction of her trade during the twenty-five years preceding 1914 tended to shift from Western Europe (England, France, Italy, Belgium) to Central Europe (Germany, The Netherlands, Austria-Hungary) (Table 2 and Chart 1). This

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Table 1—Composition of Russian Foreign Trade, Selected Years, 1894-1913

(Percentage Distribution of Each Class of Export or Import to Total Exports or Imports)

Year	Foodstuffs		Raw and Semi-Manufactured Goods		Manufactured Goods		Live Animals	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1894 ..	56.9	18.4	37.5	54.4	3.6	26.5	2.0	0.7
1898 ..	52.5	16.6	40.3	48.3	4.8	34.5	2.4	0.6
1903 ..	61.3	20.1	31.9	52.5	4.8	26.6	2.0	0.8
1908 ..	54.4	23.2	37.8	47.6	5.3	28.4	2.5	0.8
1913 ..	55.3	17.3	36.9	48.6	5.6	32.8	2.2	1.3

Source: Pasvolsky, Leo, and Moulton, Harold G., *Russian Debts and Russian Reconstruction* (McGraw-Hill, New York, 1924), p. 73.

Table 2—Geographical Distribution of Russian Foreign Trade, Selected Years, 1894-1913

(Source: Appendix Table 1 and Table 2)

Region	Value (*Millions of Rubles*)			Per Cent of Total[a]		
	1894	1903	1913	1894	1903	1913
	Exports					
Central Europe[b]	241	371	696	35.9	37.1	45.8
Western Europe[c]	285	394	508	42.4	39.4	33.4
Northern Europe[d]	28	95	109	4.2	9.5	7.2
Southeastern Europe[e]	29	44	65	4.3	4.4	4.3
Near and Far East[f]	19	55	99	2.8	5.5	6.5
North and South America[g]	2	5	14	0.3	0.5	0.9
All Others	68	37	29	10.1	3.7	1.9
Total	672	1001	1520	100.0	100.0	100.0
	Imports					
Central Europe[b]	176	280	709	31.3	41.1	51.6
Western Europe[c]	190	159	256	33.8	23.3	18.6
Northern Europe[d]	29	41	91	5.2	6.0	6.6
Southeastern Europe[e]	11	10	21	2.0	1.5	1.5
Near and Far East[f]	71	95	139	12.6	13.9	10.1
North and South America[g]	48	65	80	8.5	9.5	5.8
All Others	37	32	78	6.6	4.7	5.7
Total	562	682	1374	100.0	100.0	100.0

[a] May not always add to 100.0 because of rounding.
[b] Includes Germany, The Netherlands, Austria-Hungary.
[c] Includes United Kingdom, France, Italy, Belgium.
[d] Includes Denmark, Norway, Sweden, Finland.
[e] Includes Turkey, Romania, Greece.
[f] Includes China, Iran, Japan, Egypt.
[g] Includes United States, Brazil.

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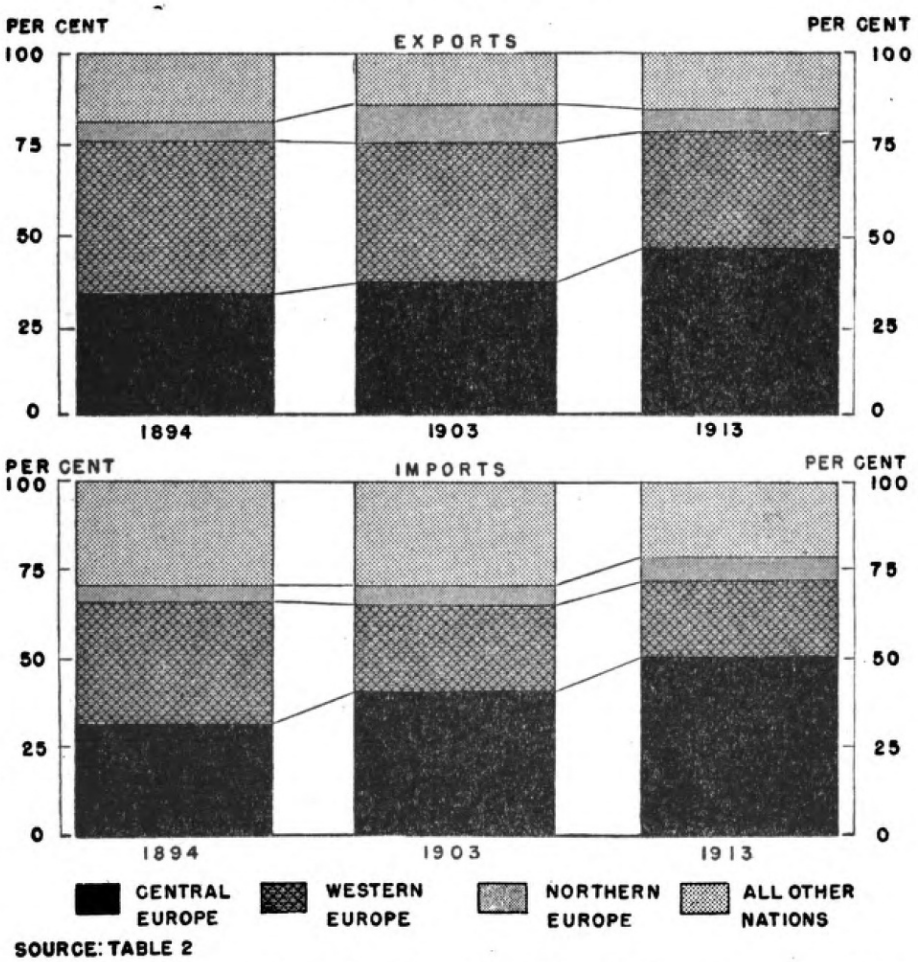
was especially true of the import trade. The principal countries with which Russia traded were Germany and Great Britain. Germany was the largest market for Russian foodstuffs and raw and semimanufactured materials, which Germany purchased either

CHART I

PERCENTAGE DISTRIBUTION OF RUSSIAN EXPORTS AND IMPORTS BY REGION, FOR SELECTED YEARS



SOURCE: TABLE 2

directly or through Holland and Finland. At the same time, Germany sold to Russia 75 per cent of all the metal ores and products, and over 50 per cent of all the textile materials imported by the latter. Russian imports of chemicals came almost exclusively from Germany, and a considerable part of her imports of finished products came also from Germany.

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Great Britain was the second largest purchaser of Russian foodstuffs and raw materials and held second place as a seller to Russia of the principal raw and semimanufactured and finished goods. The trade of other countries was relatively small.

While the United States and China sold fairly large quantities of goods to Russia, both were far down in the list of purchasers of Russian exports. Russia bought from the United States large quantities of machinery, cotton, and fuel and sold to her small quantities of raw materials. China's principal commodity sold to Russia was tea, while her purchases consisted mainly of textiles and other finished products.

Russia's Foreign Indebtedness Prior to World War I

Russia's tremendous debt, both internal and external, prior to World War I was the result of political and economic conditions. Part of it was due to wars and bad financial management by the government, and part of it was the result of necessary expenditures for internal economic development. Between 1769, when Russia for the first time began to borrow abroad from private banking houses in Holland, and 1914, the Russian government borrowed at home and abroad about 15 billion rubles. At the outbreak of World War I, Russia's total national debt at home and abroad amounted to 8.8 billion rubles. Prior to the outbreak of the first World War, Russia had the largest foreign indebtedness of any country in the world, but a considerable portion of this foreign debt was of recent origin. More than one-half of it was contracted between 1894 and 1914. In 1895, the foreign debt amounted to 1,733 million rubles, which represented 30 per cent of the total national debt; in 1904 it rose to 3,059 million rubles, representing 46 per cent of the total debt; and in 1914 it increased to 4,229 million rubles, representing 48 per cent of the total debt.[1] (The ruble was equivalent to 51.46 American cents, and contained 0.774234 grains of pure gold.)

Before 1892, the growth of Russia's foreign debt was held in check by very favorable trade balances; world grain prices were high and Russia had good crops. Soon after 1891 the situation

[1] Pasvolsky and Moulton, *op. cit.*, p. 17.

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changed; Russia's net foreign trade balance became less favorable because of decline in prices of grain in world markets and because of poor crops. In addition, a series of monetary and economic reforms were undertaken, and Russia found herself compelled to increase foreign borrowing. Local governments and municipalities borrowed money for the development of their public utilities; bonds of privately owned railroads were sold abroad; and private industries also offered their securities abroad. Thus, Russia's foreign borrowing prior to 1914 was accounted for by her economic

TABLE 3—RUSSIAN WAR DEBTS TO THE PRINCIPAL ALLIED NATIONS, AS OF OCTOBER, 1917

Nation	Debt *(In Millions of Rubles)*	Per Cent of Total
Great Britain	5,480	70.4
France	1,500	19.3
United States	435	5.6
Japan	290	3.7
Italy	83	1.0
Total	7,788	100.0

Source: Michelson, Alexander M., Apostol, Paul N., Bernatzky, Michael W., *Russian Public Finance During the War* (Yale University Press, New Haven, 1928), p. 320.

and financial needs. The financial operations involved in the prosecution of the war greatly increased Russia's indebtedness, both at home and abroad (Table 3).

By the end of 1917, the Russian debt abroad increased by 7,788 million rubles. The chief creditor countries were the United Kingdom and France. The debt to the United States consisted chiefly of credits opened to the Russian Provisional Government by the Government of the United States upon its entrance into the war with Germany in 1917. A more detailed discussion of the Russian indebtedness to the United States is given in Chapter V.

There is no definite information available concerning the distribution by countries of the prewar debt although estimates have been made. Russia's principal creditors by 1918 were Great Britain, France, the United States, and Belgium.[2]

Russia was a producer of foodstuffs and agricultural raw materials. She was an importer of certain types of raw materials and

[2] Indebtedness to Belgium was primarily pre-war borrowing.

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manufactured goods, and an exporter of agricultural products. But she was unable to export enough to meet the interest on foreign debts and to pay for imports and services for which she was indebted to foreign countries. Russia had no investments abroad and had only exports with which to pay for imports of goods and services. Thus, for the twenty years preceding World War I, Russia had an unfavorable *balance of payments* and was borrowing increasingly in foreign markets. She was a debtor country, steadily increasing her foreign indebtedness.

The increase in the importation of certain commodities at the beginning of the twentieth century was necessary to maintain the expansion of industrial production of Russia, which had proceeded at a rapid rate since the beginning of the century. Furthermore, there was a great increase in specie imports in order to maintain the gold standard, established in 1897, for which large accumulations of gold were necessary.

Russia had always had a favorable *balance of trade*, except in 1899, but it was insufficient to provide the means of paying for imports of goods and specie, and the invisible items such as, services rendered by foreigners, and interest on various types of foreign obligations, both public and private. Estimates of payments abroad for the invisible items of Russia's *balance of payments,* such as, interest and dividends on industrial investments, interest on state and municipal debt, tourist and official expenditures, banking, etc., averaged, for the five years immediately preceding the war, 400 million gold rubles.[3] These amounts were greatly in excess of the favorable trade and specie balance and explain why it was necessary for Russia to borrow continuously in foreign markets.

World War I had a catastrophic effect on Russia's international trade and financial status. Exports fell off very rapidly, while imports increased rapidly, and Russia was forced to borrow large sums abroad, primarily from Great Britain (70 per cent), France (19 per cent), and the United States (6 per cent) (Table 3).

As compared with 1913, the value of Russia's exports declined 37.1 per cent in 1914, 73.6 per cent in 1915, 62.2 per cent in 1916,

[3] Michelson, Apostol and Bernatzky, *op. cit.,* p. 351.

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and 69.5 per cent in 1917. Her total imports, on the other hand, decreased only 20.1 per cent in 1914 and 17.1 per cent in 1915 as compared with the prewar period. In 1916, however, Russia's imports practically doubled from 1913, and in 1917 they were 43.1 per cent higher than in 1913. In the same period, a sharp depreciation of Russian currency took place as Russian economic conditions gradually deteriorated (Table 4).

World War I produced other changes in the foreign trade of Russia. With its outbreak in July, 1914, Germany was suddenly eliminated from Russia's foreign trade and was replaced by Great Britain, the United States, and Japan. Germany was, however, up to that time, the principal importer of Russian products, taking about 30 per cent of Russian exports; she was also the largest

TABLE 4—CHANGES IN RUSSIAN FOREIGN TRADE, 1913-1917

Year	Exports of Merchandise *(Millions of Rubles)*	Imports for Consumption *(Millions of Rubles)*	Index of Foreign Trade *(1913=100)*		Per Cent Change from 1913	
			Exports	Imports	Exports	Imports
1913	1,520	1,374	100.0	100.0	100.0	100.0
1914	956	1,098	62.9	79.9	−37.1	−20.1
1915	402	1,139	26.4	82.9	−73.6	−17.1
1916	575	2,750	37.8	200.1	−62.2	+100.1
1917	464	1,966	30.5	143.1	−69.5	+43.1

Source: *Foreign Commerce Yearbook*, United States Department of Commerce, Washington, D. C., Vol. II, 1926, p. 473.

exporter of goods to Russia. Forty-seven per cent of Russian imports came from Germany in 1913, while the United States supplied only about 6 per cent of the total Russian imports (Appendix Tables 1 and 2). Consequently, the normal channels through which Russia imported and exported goods were, for the most part, closed, and the British blockade of Germany hampered Russia's trade with some of the neutral countries. Tariff duties on imported goods were raised, and embargoes were applied upon exports to neutral countries (Sweden and Norway) and to Germany and her Allies.

With the revolution of November, 1917, the economic situation took a sharp turn for the worse. Although at the start of the war the British naval blockade of Germany and her allies affected

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Russia only indirectly, after November, 1917, it was aimed against Russia, since Great Britain and the Allied Powers suspended shipments of goods to Russia entirely. The seizure of power by the Bolsheviks in November, 1917, led to extraordinary changes in the political, social, and economic life of the country. A few months later private property was abolished; industry was nationalized; and banking, transportation, and foreign trade were declared to be state monopolies.

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CHAPTER II

THE SOVIET ECONOMIC SYSTEM

Planning

Russia's planning on a national scale began in 1921 with a tentative and sketchy fifteen-year plan of electrification, and a nucleus of economists and engineers that was to become the State Planning Commission. During the next seven years, three processes went on side by side: (1) the war-devastated country was restored to its normal prewar level of trade and industry (with the aid of private enterprise temporarily permitted for that purpose); (2) experience was accumulated in preparing plans; and (3) the political controversy as to the future of Russia—what to plan for—was being fought out.

However, as long as the free market and private industry, permitted under the New Economic Policy, existed, planning could not be comprehensive. With the liquidation of the N. E. P. in 1928, real planning began, and, since that time, has been an outstanding characteristic of the economic and social life of the U. S. S. R.

PLANNING PROCEDURE

At the head of the planning system is the All Union Planning Commission, or Gosplan, consisting of a large staff of economists, statisticians, engineers, and technical experts under the direction of a Board of eleven persons. The Board is responsible to the Council of the People's Commissars (equivalent to a Cabinet of Ministers), and the President of the Board is a member of the Council. The Gosplan has four main departments which deal respectively, with (1) the general economic plan, (2) capital construction, (3) finance, and (4) regional distribution of production.[1] Each commissariat, trust, enterprise, collective farm, school,

[1] Cf. Dobbs, Maurice H., *Soviet Planning and Labour in Peace and War* (G. Routledge and Sons, Ltd., London, 1942), p. 27.

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etc. has its planning board. Each republic, province, and local political subdivision has its own planning commission which is subordinated to the board of the immediately larger political, industrial, or geographical area, and, finally, to the Gosplan. In order to achieve unity of purpose and close cooperation, each planning agency from the lowest to the highest is dominated by the Communist Party, and each segment of the plan must be in accord with the objectives and general directives of the Party.

After the Communist Party has determined the general objectives and policy, the State Planning Commission draws up (1) a tentative, general production plan covering a period of fifteen years (this was started in 1927-28); (2) a five-year plan; and (3) prepares so-called control figures for each year. The aim of the general or production plan is to draw in skeleton form an outline of the Soviet economic state as it is expected to become in the future, and to indicate the principal steps in the development of the country. The five-year plan is a part, much more concrete and elaborate, of the general plan. It indicates the rate of development of the various branches of industry, coordinates the growth of various industries on the one hand, and the development of industry and agriculture on the other, and, finally, outlines the rate of capital accumulation in the country. The control figures of the national economy of the Soviet Union deal with a wide range of problems and include: (1) capital investment in industry, (2) industry and its development, (3) fuel, (4) electrification, (5) agriculture, (6) transportation, (7) forestry, (8) communications, (9) building, (10) labor, (11) foreign and domestic trade, (12) prices, (13) budget, (14) credit and currency circulation, (15) cultural developments, (16) regional economy, and (17) Soviet Union and World Economy.

The tentative five-year plan is then broken into its component parts and sent for consideration to the appropriate subordinate geographical or functional planning agencies. This process of subdividing the plan continues until the individual factory, mine, or farm is informed of its part in the plan. In this way, the individual enterprise will know how much capital, raw materials, and labor it will be furnished under the plan, how much it will be

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expected to produce, and at what cost. All the various enterprises and subdivisions make suggestions, criticisms, and counterplans which are assembled through hierarchical stages and returned to the Gosplan. On the basis of this new information, the Gosplan formulates a definitive plan; it is then approved by the Communist Party Congress, and, since 1936, by the Supreme Soviet. The adopted plan is now divided into its component parts and sent down to the various agencies and units that are to execute it.

The most striking characteristics of the Soviet State plans are their comprehensive scope, tying together and balancing all major kinds and aspects of the nation's economic activity, their consistency and purposiveness, each five-year plan being a step, in detailed economic terms, in the realization of a long-term program for the transformation and development of the country, decided upon by the political leadership.

FAVORABLE AND UNFAVORABLE FACTORS CONNECTED WITH SOVIET PLANNING

The conditions under which planning in Soviet Russia was established were both favorable and unfavorable.

The chief favorable factors were: (1) the collective ownership and operation of the means of production, and (2) the dictatorship of the Communist Party. With collective ownership and operation there is no necessity for persuasion or compulsion of private owners to conform to the plan. Each factory and farm can be operated as one segment of the huge economic system. Thus, the problem of costs of production and financial solvency, which is of such great importance to individual owners in a capitalist economy, is relatively unimportant in Soviet Russia. Under collective ownership, one industry may sell below cost for long periods, since its losses can be offset by gains in other industries; a subsidy system that prevails in Soviet Russia. The dictatorship by one party allows the drafting of long-term plans, a thing difficult to achieve in a democracy with a bi-party or multi-party system. Furthermore, the effect of various pressure groups and lobbyists is of little significance in Soviet Russia. Such attempts are made before the plan has been approved by the Communist Party, but

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after the party has decided upon its course they must and do cease. The controlled press, schools, radios, and movies are tools in the hand of the government, which also makes planning easier. The masses know only the views of the ruling party, and, through propaganda, enthusiasm may be raised in support of the plan.

The factors unfavorable for planning were: (1) lack of capital, (2) lack of skilled and educated people, and (3) threat of war, especially after the rise of Hitler to power. In 1934, when the Second Five-Year Plan was in full operation, and plans were laid for an expansion of the consumers' goods industries, the authorities decided to divert a great part of the resources of the country to national defense.

MATERIALS USED IN PLANNING

The materials used by the planning organizations as a basis for their forecasts consist of: (1) statistical data furnished by the various departments; (2) forecasts and estimates presented by industrial organizations and experts; (3) sampling and analyses of data relating to production units; and (4) forecasts for entire groups based upon such analyses. While the Gosplan data are estimates or forecasts of production, prices, employment, and other related matters, they are more than that because they are a guide to the authorities in the execution of the plan, and are a kind of *tableau economique* of future Russia.

PROCEDURE FOR CHECKING PERFORMANCE

No less important than drawing up the plans is the work of Gosplan in keeping continual observation on how the plans are working out: foreseeing which industries threaten to lag behind and which to run ahead; noting where the inevitable bottlenecks show signs of appearing; warning the government of such impending bottlenecks, and recommending measures for obviating or cushioning their adverse effects. For this purpose, a highly centralized statistical service is utilized. Up this network of statistical bodies (there is one attached to each Planning Commission and Commissariat) comes a constant stream of figures—from the villages, towns, counties, provinces and republics, and from factories, farms, shops, railroads, and banks—which are collated and

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analyzed at each stage before arriving at the Central Board of Economic Accounting in Moscow, which is a subsidiary of Gosplan. Thus, the fingers of the central and local authorities are kept constantly on the economic pulse of the country.

The most difficult problem in planning is to achieve flexibility —to discover and correct unbalanced situations which are created by either over-fulfillment or under-fulfillment of the individual portions of balanced plans. Two devices have been adopted by the Soviet planners to meet these problems: (1) "synthetic indices," and (2) short-range plans included within the five-year plans. There is little information concerning the use of "synthetic indices"; apparently they are based on the construction of a series of "balances." For instance, the balance between the production of consumers' goods and wage payments, or between the production of construction materials and the expansion of industrial equipment could be put into a planned "synthetic index" covering a planned period. As the plan is carried into effect month by month, a current index is kept of the actual relationship between the elements in each balance. Whenever the index departs from the index in the plan, it is clear that the planned balance is not being realized.[2]

Since adjustments which must be made from time to time to maintain balance require that plans be flexible, the planning procedure provides that each plan is formulated in terms of "maximum-minimum variants," and in terms of yearly and even quarterly plans which are subject to continuous revision. The "maximum-minimum variants" mean simply that in order to achieve realization of the production of the planned item each important economic index must fall within the maximum and minimum values planned.

The breaking down of the five-year plans into one-year and quarterly plans subject to revision is calculated to make it possible to adapt plans to current needs, whenever and wherever the necessity develops.

[2] Loucks, William N., and Hoot, J. Weldon, *Comparative Economic Systems* (Harper and Brothers, New York, 1943), pp. 510-11.

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MARKET CONTROL UNDER THE GOSPLAN

Under a competitive system of private, independent producers, the problem of economic equilibrium is solved by the behavior of markets which regulate, in an indirect way, the distribution of capital and labor among the various branches of the national economy. Prices and rates of profit tell the private producer what, how much, and at what cost he may produce. In the Soviet Union, however, industry is nationalized and the State is the sole producer and distributor of commodities. It determines the volume of production of all kinds of goods and the prices to be charged for them. All economic activity is financed by the State, and there is no private ownership of the means of production. Thus, having eliminated the free play of economic forces, the Soviet State substituted economic planning.

Factories, mills, mines, entire industries are but separate branches of a unified economic system, subject to the one directing brain—the Gosplan. The Gosplan is a substitute for the market; it must solve the problems of equilibrium. It allocates the factors of labor and capital among the various branches of industry. It determines the quantity of production, the volume of currency in circulation, costs, prices, and, to a certain extent, consumption.

PLANNING RELATED TO OBJECTIVE

The First Five-Year Plan—October, 1928, to the end of 1932, had as its major objective the rapid industrialization of the U. S. S. R. to free the country from its dependence on industries of more advanced and more powerful states. The production of consumers' goods was minimized in favor of the largest possible expansion of factories producing various types of machinery, tractors, electrical equipment, and other types of capital goods. Another important task was the reorganization of agriculture, changing it from small individual farms into large collective units.

The Second Five-Year Plan, 1933-37, laid stress on mastering the new methods of production, training labor, and the expansion of the production of consumers' goods. However, the threat of war with Japan and Germany during this period necessitated a

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change in plans, with greater emphasis upon national security. The imminence of war with Germany forced the Soviets to shift their industrial expansion from Western Russia to the Urals and Siberia.

The Third Five-Year Plan, 1938-1942, dealt with the same problem, namely, that of improving the defense of the country and further energetic industrialization.

Economic Organization and Concepts

Prices and Allocation of Factors of Production in Soviet Russia

Soviet plans stipulate how much of the national income is to be saved each year, and in what ways the available capital, labor, and land are to be used. Under a capitalistic system these problems are solved, chiefly, through the operation of the price mechanism. Soviet Russia has a price system, but it is subordinated to planning. Relative prices of commodities do not determine the allocation of factors of production. Instead, the pricing mechanism is used as a tool to aid in the realization of the plan. The plan thus determines how much of the national income shall be saved. By means of the turnover tax, the profit from state enterprises, and the semi-compulsory individual savings, purchasing power is diverted from consumers and such funds are allocated for investment according to the plan. For example, the fact that prices of foodstuffs or other consumers' goods are very high does not in itself cause more factors to be diverted to their production. The plan also often allocates the factors of production without regard to immediate economic productivity; that is, the factors are sometimes diverted to the production of commodities whose selling prices are lower than their costs of production. For instance, before 1936 prices of metal and coal were below cost of production and the difference between cost and price was covered by the state.[3] Price is simply the basic lever for the redistribution of the national income, and is determined in accordance with definite political and economic policies

[3] *Ekonomika Sotzialisticheskoi Promyshlennosti* (*Economics of Socialist Industry*), edited by Granovskii, E. L., and Marcus, B. L. (Akademiya Nauk, Moscow, 1940), p. 498.

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carried out by the Communist Party and Government in relation to the state of economic development of the U. S. S. R.

The ordinary functioning of prices, therefore, has little effect on the allocation of productive factors in the Soviet Union. The social economic policy, as decided upon by the authorities and as scheduled by the Gosplan, decides what shall be produced, and how much. The prices established for the sale of goods among state industrial enterprises are merely units of account. No enterprise can make a contract with another selling enterprise merely because the latter offers better terms. It must buy where and when the plan directs. The prices among state enterprises are based upon the planned production costs, determined by calculating the average actual costs for the previous year, with a deduction for the planned decrease in cost, or increase if found necessary, for the current year. These costs include cost of raw materials, fuel and power, labor, depreciation and replacement, administration, and a planned percentage of profit. Specifically, the final price for each product includes four elements: (1) factory production costs, (2) distribution costs (including transportation), (3) turnover tax, and (4) profit. These prices are based on the average cost of the whole industry, thus, forcing some individual enterprises to operate at a loss. In such instances, subsidies are granted to these enterprises. Apparently, the chief function of prices among state industries is to present an accounting unit for the control of waste, and for comparing the relative efficiency of individual enterprises in the same industry. This planning of prices obviously does not consider consumer demand as the major determinant of production. However, from the time formal rationing was abolished in 1936 until it was re-established in the fall of 1941, prices to consumers functioned in the same way as under capitalism in distributing goods among consumers. Individuals could buy as much as their purchasing power permitted.

In capitalist countries, prices tend to rise if demand for goods increases. Retailers expand their orders for these commodities, inducing manufacturers to increase production. In Soviet Russia, consumer demand for goods has no effect on the supply of goods, unless the planning authorities decide to increase it. If the

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authorities decide not to increase production, prices will probably be raised to create a new equilibrium between supply and demand.

ACCUMULATION OF CAPITAL AND TAXATION

Major Sources of Capital — The Soviet Government had a relatively easy task to accumulate funds necessary for its industrialization program, since it had complete control over the internal industry and trade of the country as well as a monopoly of foreign trade. The bulk of capital necessary for the industrialization of the country under the First Five-Year Plan came mainly from: (1) profits from nationalized industries; (2) profits from the regulated internal trade; (3) profits from the foreign-trade monopoly; (4) profits from expropriated lands, plants, mines, etc.; (5) profits from banking operations; (6) the power of the State to tax; and (7) discontinuance of payments abroad of interest due on the international indebtedness of Russia which was repudiated by the Soviet Government in 1918. Although this repudiation, strictly speaking, did not give rubles to the state, it did enable the Soviet Government to conserve the small amounts of foreign exchange and gold available to it for the purchase of materials and equipment abroad.

The Turnover Tax — At present the great bulk of the state revenue, the major source of capital accumulation, comes from the turnover tax introduced in 1930. This tax is similar to a sales tax but is collected from the manufacturer or processor and not directly from the consumer. The rate of the turnover tax is very high and is subject to frequent changes. The prices which the government sets on all kinds of goods include, as mentioned above, the basic costs of production and distribution, the planned profits, and the turnover tax. The tax is paid to the government but once, and is levied on practically all commodities. It is computed on the basis of a percentage of the selling price and is imposed in advance on the final price of an article. The following rates were effective in 1937: meat from 61 per cent to 82 per cent; salt, 66 per cent to 83 per cent; cigarettes, 75 per cent to 90 per cent; cottons, 44 per cent to 65 per cent; hose, 15 per cent to 65

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per cent; knitted underwear, 25 per cent to 55 per cent; bread and flour, 70 per cent to 80 per cent; etc.[4]

The turnover tax accounted for more than 75 per cent of total revenue through 1937 (Table 5). The yield of the turnover tax depends upon three factors: (1) The volume of production, (2) the price of goods, and (3) the tax rate. All three, of course, are controlled by the state.[5]

The arguments for the use of the turnover tax, according to Soviet economists, are that the turnover tax is a more flexible and reliable source of revenue than are the profits of socialized industry, and that receipts from the turnover tax are in no way affected by the element of cost of production.[6] Among the advantages claimed for the turnover tax the following are of importance: (1) it is simple from the viewpoint of administration; (2) it is collected automatically and with little cost; and (3) it has produced tremendous amounts of revenue.

TABLE 5—REVENUE FROM THE TURNOVER TAX, 1931-1938

Item	1931	1934	1935	1936	1937	1938
Yield of the Turnover Tax..... *(in billions of rubles)*	11.6	37.6	52.1	65.8	75.9	83.3
Per Cent of Total Revenue.....	61.3	75.5	77.3	78.8	78.6	71.4

Souce: Florinsky, Michael T., *op. cit.*, p. 165.

Moreover, the turnover tax is used as an instrument of economic planning in connection with consumption. When consumption is to be discouraged because of shortage of supply, or any other cause, the turnover tax is raised and the price thus increased. On the other hand, where it is desired to encourage consumption, the turnover tax is fixed at a nominal rate.[7]

Other Sources of Revenue — Other important sources of revenue are: (1) a percentage of the profits of state-owned enterprises; (2) the agricultural tax levied on collective farmers and individual peasants; (3) the semi-compulsory individual sub-

[4] Cf. Florinsky, Michael T., *Toward an Understanding of the U. S. S. R.* (The MacMillan Co., New York, 1939), p. 167.
[5] Cf. *Ibid.*, p. 166.
[6] Cf. *Ibid.*, p. 169.
[7] Cf. Bogolepov, M., "Finance and Credit in Soviet Russia," *The Journal of Commerce and Commercial*, Vol. 172, No. 13,309, 1937, Second Section, p. 65.

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scriptions to state loans; (4) a tax on savings bank deposits; (5) income and inheritance taxes.

The National Budget — The national budget of the U. S. S. R. is of the greatest importance in the economy of the nation since it mobilizes and redistributes all the financial resources of the country among the people for their use, and provides for capital accumulation, national defense, etc. In Russia, the government determines through the budget system what part of these resources shall be allocated to national production and what part to national consumption. Since the adoption of the five-year plans, Russia has followed a policy of forced industrialization of the country, and the share of the budget allocated to industrialization has been very large. For instance, in 1933, it amounted to 60.8 per cent of the entire budget but declined to 41.7 per cent of the budget in 1938, although in terms of rubles the allocated share was almost doubled.[8]

SOVIET FINANCES AND MONEY

The Financial Plan supplements the general Gosplan of the Soviet Union. The Financial Plan is a comprehensive budget for all state activities involving receipts and expenditures. It is a counterpart of the Production Plan, and both plans must be in complete accord since they represent two aspects of the same plan. All state organizations, to the smallest unit, draw up financial plans which are presented to the State bank or Gosbank. The latter draws up an over-all currency plan and submits it to the State Planning Board for approval and inclusion in the general financial and production plans. Once these plans are approved the Gosbank and its branches carry out the stipulated emission of currency to the various enterprises.

Soviet Money is an internal currency (it is forbidden to export and import it), and it is not quoted in the foreign exchange markets. Its functions are to serve as a unit of account in economic planning and in the transactions between state enterprises, and to serve as a medium of exchange. Theoretically, the Soviet Union is on a gold standard, but actually its currency system is based on a managed inconvertible paper money. The

[8] Cf. Yugow, A. *Russia's Economic Front for War and Peace* (Harper and Brothers, New York and London, 1942), p. 138.

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monetary unit is the ruble. The price of fine gold is set at 5.6807 rubles per gram, but it is used only in accounts between the state bank and the gold producing trusts. Within the country no one can exchange paper money for gold, while externally all transactions are based on the currency of the foreign country concerned. Arbitrarily, the exchange rate of the ruble is set at 5.06 rubles to the dollar, and 25.04 rubles to the pound sterling. However, this has little meaning except to foreigners living or traveling in the U. S. S. R., who must exchange their currencies for Russian currency at the legal rate. The only rough measure for determining the relative value of the ruble and a foreign currency is a comparison of the prices of consumption goods in the Soviet Union with such prices in the foreign country. This comparison became possible only after the general abandonment of rationing at the beginning of 1936. The exchange of the ruble on the black market in Moscow was about 40 rubles to the dollar in 1938.

The issuance of currency is not managed with any regard to the gold reserve, the indexes of price changes, changes in production, or the volume of trade. It is regulated by the production needs of the economy. Thus, plans for a new mill, dam, or factory will not be postponed because the state has no cash surplus from taxation. The Soviet Government has never hesitated to issue additional rubles for capital construction.

There were two chief reasons for the rapid expansion of currency during the First Five-Year Plan: (1) the rapid industrialization required the employment of many millions of additional workers; and (2) few of the Soviet enterprises have been able to operate within their planned costs of production. Hence, currency inflation has been present in Soviet Russia, but, because of planned production and price fixing, its results were not the same as those occurring from currency inflation in a capitalistic country, especially were there no speculative and debtor-creditor repercussions. It had little effect, if any, on the determination of what was to be produced, or on the prices of goods sold by one state enterprise to another. Furthermore, in spite of this expansion of currency, a rise in the prices of necessities was largely prevented by rationing.

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FOREIGN TRADE — THE ROLE OF EXPORTS

Immediately after the end of the Civil War in 1921 when the country was prostrate, and its economic life was in complete chaos, the Soviet Government realized that without a change in the economic policies of the government and help from foreign countries, it would be difficult to restore the economy of the nation; moreover, it would take a very long period of time. At the same time, the political relations of the U. S. S.R. with other nations were disrupted, and means had to be found to improve these relations since they could easily become a source of economic and political danger to the Soviet State. Moscow distrusted foreign countries and since 1918 has been fearful of the so-called "capitalist encirclement of the Soviet State." The Western Powers in turn disliked and distrusted the economic system established by the Soviets. They were afraid of communist propaganda and hoped for a speedy downfall of the Soviet regime.

Russia Exports to Finance Imports — With time, however, the Soviet Union re-established economic intercourse with the Western Powers, which was followed later by diplomatic recognition. The re-establishment of foreign trade was absolutely necessary for Russia because she suffered greatly from starvation. But Russian gold was dissipated during the war and the revolution, and she had no credit abroad; therefore, exports were the only means left for paying for the necessary imports. Consequently, the Soviet Government announced that in order to import, they had to export. This has become the consistent policy of Soviet Russia for the last twenty years. At first, imports were necessary to accelerate the reconstruction of the country; later, they were used for the development of an economically powerful Russia, while exports were simply used to procure foreign exchange required to pay for these imports.

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CHAPTER III

FOREIGN TRADE IN THE SOVIET ECONOMY

General Principles of Soviet Foreign Trade

THE STATE MONOPOLY OF FOREIGN TRADE

On April 22, 1918, the Soviet Government issued a decree making foreign trade a complete state monopoly, and since that time, it has never deviated from this method of trading with foreign countries. The decree establishing the monopoly of foreign trade was issued by the Council of People's Commissars, and reads as follows:

Decree of the Council of People's Commissars (of the R. S. F. S. R.) Concerning the Nationalization of Foreign Trade

I

All foreign trade shall be nationalized. Commercial transactions, both the purchase and sale of all kinds of products (of the mining industry, of manufacturing industries, of agriculture, etc.), with foreign governments and individual commercial enterprises abroad, shall be executed in the name of the Russian Republic by organs specifically empowered thereto. Except by these organs all commercial transactions with foreign countries, both import and export, are forbidden.

(Note: The regulations covering importation and exportation of parcel post packages and passengers' baggage will be published separately.)

II

The organ having control over the nationalized foreign trade shall be the People's Commissariat for Trade and Industry.

III

For the organization of exports and imports, there shall be set up in connection with the People's Commissariat for Trade and Industry, a Council of Foreign Trade. This Council shall consist of the representatives of the following departments, bureaus and organizations; (a) departments—war, navy, agriculture, food supply, ways of communication, foreign affairs and finances; (b) representatives of central organs of regulation and admin-

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istration of individual branches of production, such as: the Central Tea Committee (Tsentrochai), the Chief Sugar Committee (Glavsakhar), the Central Committee of the Textile Industry (Tsentrotekstil), etc., and representatives of all divisions of the Supreme Council of National Economy; (c) the central organizations of the cooperatives; (d) the central representations of the trading and industrial, and agricultural organizations; (e) the central organs of the labor unions and employees in trading and industrial enterprises; (f) the central organs of commercial enterprises engaged in importing and exporting the most important products.

(Note: The People's Commissar for Trade and Industry shall have the right to add to the staff of the Council of Foreign Trade representatives of organizations not named above.)

IV

The Council of Foreign Trade shall put into effect the plan for exchange of goods with foreign countries worked out and confirmed by the People's Commissariat for Trade and Industry.

Among the tasks of the Council of Foreign Trade are included: (1) a record of demands for and offers of export and import goods; (2) the organization of procurements and purchases, through the medium of the corresponding central organs of individual branches of industries, Chief Sugar Committee (Glavsakhar), Chief Commissar for the Petroleum Industry (Glavneft), etc., and in their absence—through the medium of the cooperatives, its own agencies and trading firms; (3) the organization of purchases abroad through the medium of State purchasing commissions and agencies, the cooperative organizations and trading firms; (4) the fixing of prices for export and import goods.

V

(1) The Council of Foreign Trade shall be divided into divisions according to branches of production and most important groups of export and import goods, the heads of these divisions having the capacity of representatives of the People's Commissariat for Trade and Industry.

(2) The President of the general meeting of members of the Council of Foreign Trade and of its Presidium, elected by the general meeting, shall be a representative of the People's Commissariat for Trade and Industry.

(Note: The internal organization of the Council of Foreign Trade, the number of divisions, their duties, rights and sphere of activity will be specially worked out.)

(3) All decisions of the divisions shall be presented by the Presidium of the Council for confirmation by the People's Commissariat for Trade and Industry.[1]

[1] Ropes, E. C., *Twenty Years of Soviet Trade* (U. S. Department of Commerce, Washington, D. C., 1939), Special Circular No. 399, pp. 1 and 2.

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Article 14 of the constitution of the U. S. S. R., promulgated in 1935, lists the jurisdictions of the All Union Government: "The jurisdiction of the Union of Soviet Socialist Republics, as represented by its highest organs of state authority and organs of government, includes Foreign Trade of the U. S. S. R., which is conducted on the basis of state monopoly." Article 77 of the same constitution lists the All Union People's Commissariat of Foreign Trade.

Nevertheless, between 1918 and 1922, Soviet authorities seriously considered other methods of controlling trade without nationalization, the most favored method being the imposition of high or even prohibitive custom duties, but the majority of the Soviet authorities in their distrust of foreign countries believed that the latter, because of the attractiveness of the rich Russian market, would flood the market with goods regardless of the duties that might be levied. This would lead to a number of undesirable consequences, feared by the struggling new state. In other words, the international conditions prevailing at the time made it necessary to adopt a method of complete control of foreign trade so that all movement of goods into and out of the country was constantly directed and controlled by the government.

ECONOMIC AND POLITICAL BASES OF FOREIGN-TRADE MONOPOLY

Both economic and political reasons, no doubt, played a part in the decision to establish a foreign-trade monopoly. In the early years of its existence, when a severe shortage of goods prevailed and the Soviet Union suffered greatly from the effects of World War I followed by three years of civil war, the Soviet Government was confronted with the necessity to prevent the dissipation of the remaining wealth of the country. The best method for achieving this objective seemed to be a monopoly of foreign trade in which decisions could be made on the nature and amount of goods to be imported into and exported from Russia. Thus, the monopoly of foreign trade served as a powerful tool for safeguarding the resources of the country.

Furthermore, by monopolizing the functions of foreign trade, the Soviet Government removed the influence of foreign capital

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on the Soviet economic life. Such an influence would have been incompatible with the aim of the Soviet authorities had it been allowed to penetrate the country and to stimulate the private purchasing and selling of goods. The development of large-scale socialized industry in the early years of the Soviet Union required a carefully controlled inflow of products from the capitalist industries of Europe and America. The most thorough system of protective tariffs could not have created necessary and sufficient safeguards for a planned development of the Soviet State. Apparently, the use of a quota system for imports was considered to be too cumbersome. Acording to Lenin, no tariff policy could be effective in an era of "Capitalistic Imperialism," and of great differences between the poor and the incredibly rich countries.[2] Under such conditions, Lenin maintained, a rich industrial country could, and probably would, always break down any tariff wall by using export subsidies on its sales to Russia.[3] If foreign trade had been controlled by private traders during the period of reconstruction of the Soviet economy when most consumption goods were much more expensive in Soviet Russia than in foreign markets, there would have been a much larger inflow of consumption goods. Payment for these goods would have used up a large part of the foreign exchange arising from Soviet exports and there would have been left very little purchasing power which could have been used for buying foreign capital goods. Only a state monopoly of foreign trade which directly regulated external trade seemed adequate to create the necessary safeguards for the development of the country, and to provide an opportunity for the complete use of economic planning.

The state monopoly of foreign trade has made it possible for the Soviet authorities to plan, produce, and fix prices without the possibility of foreign imports disturbing the production and price programs. Soviet foreign-trade policies were little affected by changes in the internal price levels, in rates of exchange, and in gold movements—changes which are important conditions in the adjustment of trade of non-socialistic economies. The ruble, as

[2] *Finansy i Kredit S. S. S. R. (Finances and Credits of the U. S. S. R.)*, edited by G. A. Kozlov (Gosfinizdat, Moscow, 1938), p. 437.
[3] *Ibid.*, p. 437.

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indicated previously, is not bought and sold on foreign exchange markets, and gold is not exported to support exchange rates, but is a commodity. Any accurate comparisons, moreover, of the Soviet price level with that of foreign countries, at least before the end of rationing in 1936, were impossible.

In capitalistic countries, exports are usually considered to be desirable and imports to be more or less a necessary evil. The reverse is true in the U. S. S. R. The plan determines what imports are essential and then decides what exports should be used in payment for these imports.

The problem of comparative advantage, that is, which commodities can be produced at relatively lower costs in the U.S.S.R. than in foreign countries, had little significance to Russian authorities during the reconstruction period. Instead, the problem was one of determining which commodities could be exported without appreciably affecting the health or economy of the nation, and which ones would be purchased by foreign buyers. Once a decision is made that a certain commodity is to be exported to pay for desired imports, the trust producing the commodity must turn it over to the exporting agencies, even though the price received is less than the estimated cost of production, the loss being covered by a state subsidy.

In view of the unsettled conditions, both political and economic, which prevailed in Russia during the early thirties, an analysis of Soviet foreign-trade practices in terms of their relation to dumping and unfair competition, and to production with the use of forced labor is futile. Costs of production, especially the allocation of overhead costs, are difficult to determine for a given product in any economy of private enterprise, but the difficulties are greater in a socialistic economy. Price determination, moreover, between the home market and foreign market, rather than selling below cost of production, is the fundamental test of international dumping. Such price comparisons for Soviet exports because of controlled domestic prices and exchange transactions are inconclusive. It is true that the Soviet Union, between 1930 and 1934, appeared willing to sell its products for almost any price, and that these prices appeared to foreign producers to be

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below cost of production. Selling at a loss, however, is not a peculiar feature of socialized industry. In this instance, the Soviet Union was forced to sell its exports at any price they would bring in order to pay for the imports which were absolutely necessary for the furtherance of the First Five-Year Plan. At that time, the Soviet Union was rather heavily indebted abroad, had very little gold to export, and had insufficient credit. The First Five-Year Plan was threatened with collapse if the planned imports were not forthcoming, and the only way to pay for them was to export commodities regardless of sacrifice. The prices of commodities which the Soviet Union had to sell fell more in the world markets than the prices of the goods it desired to buy, and a much greater volume of exports than had been planned was necessary, if the planned imports were to be bought.

The effect of falling prices on the volume of exports from Soviet Russia is indicated by a few statistical comparisons. In 1930, exports were valued at 4,539 million rubles; in 1931, the value fell to 3,553 million rubles (Table 10), while the volume rose from 21.5 million tons to 21.8 million tons (Table 11). In 1932, the volume fell to 18 million tons valued at 2,518 million rubles; in 1933, the volume of exports was approximately the same (17.9 million tons) as in 1932, but their value dropped to 2,168 million rubles. In other words, the volume of Soviet exports declined 20 per cent between 1930 and 1935, while, for the same period of time, the value of these exports declined 65 per cent.

The monopoly of foreign trade enables the Soviet government to use its foreign trade as a weapon for protecting its interests in the world-wide political and diplomatic struggle to a much greater extent than can nations whose foreign trade is carried on by private individuals. Soviet Russia can, and did, use its foreign trade to reward friendly nations and to penalize countries with which she was on bad terms. When the French imposed special duties on imports from Soviet Russia, and Canada and the United Kingdom imposed an embargo on the imports of Soviet goods, the Soviet Government retaliated by curtailing trade with France in 1930, with Canada in 1931, and with the United Kingdom in

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1933.[4] Prior to that, in 1927, the British government had a dispute with the Soviet government with regard to Soviet propaganda in England, resulting in a marked decline in British exports to Russia. After the rise of National Socialism in Germany in 1933, and until the autumn of 1939, the Soviet Government cut down on its trade with Germany while expanding it with the democratic states (Table 6 and Chart 2). In 1930 and 1931, charges were made in the Congress of the United States and in the Press that Soviet Russia "dumped" its commodities in the United States, commodities which, moreover, were manufactured by forced labor. The United States Treasury Department placed an embargo on certain Soviet exports, and imports of Soviet anthracite coal were subjected to a special tax (p. 83). The upshot of all this was that Russian imports from the United States declined from $103.7 million in 1931 to $12.6 million in 1932, and to $8.9 million in 1933 (Table 18). However, the official Soviet explanation for this drastic decline in Russian imports was that it was necessitated by lack of foreign credits.

The problem of whether it is possible for exporting countries to obtain guarantees of nondiscriminatory treatment from governments as purchasers was made the subject of formal international discussion in 1931 in Geneva before the League of Nations.[5] The representatives of the Soviet Union proposed, unsuccessfully, the adoption by the participating countries of a draft protocol of "economic nonaggression." The signatories to this protocol were to "undertake to forego any discrimination whatever, and to regard as incompatible with the principles of the present Protocol the adoption and application in their respective countries of a special system directed against one or more of the countries signing the present Protocol or not applicable to all other countries." The occasion for the proposal was the fact that many countries had applied, or were contemplating the application of special restrictive measures on imports from the Soviet Union on the ground that as a state monopoly of foreign trade it was practic-

[4] Cf. Yanson, J. D., *Foreign Trade in the U. S. S. R.* (Victor Gollancz, Ltd., London, 1934), p. 143.

[5] Cf. League of Nations, *Trade Relations between Free-Market and Controlled Economies* (Princeton University Press, Princeton, N. J., 1943), pp. 75 and 76.

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TABLE 6—PERCENTAGE DISTRIBUTION OF RUSSIAN EXPORTS AND IMPORTS, SELECTED COUNTRIES, 1924-1938[a]

Country	1924-25[b]	25-26[b]	1926-27[b]	27-28[b]	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
	Exports													
United States ..	4.9	4.5	3.0	3.6	4.6	3.9	2.8	3.0	2.8	3.4	7.2	9.6	7.8	7.3
France	3.8	5.9	7.0	5.4	4.6	4.3	3.5	5.0	4.6	5.2	4.9	7.6	5.0	4.5
Germany	15.2	16.5	21.9	24.7	23.3	19.8	15.9	17.5	17.3	23.5	18.0	8.5	6.2	6.6
Italy	2.7	4.9	4.9	3.3	3.6	5.1	4.9	4.7	4.5	4.5	3.3	3.1	1.0	..
Netherlands ...	3.6	3.1	3.0	2.1	3.4	3.0	3.6	3.7	5.2	4.3	4.4	4.0	6.5	7.0
Sweden	..	..	..	..	0.2	0.2	0.8	1.1	1.2	1.3	1.2	1.6	1.1	1.0
United Kingdom	33.2	28.7	25.8	20.0	21.9	27.0	32.8	24.1	17.6	16.5	23.4	28.6	32.8	28.2
China	2.1	3.1	3.0	4.1	3.9	4.7	8.0	12.1	12.5	14.0	5.7	6.9	6.2	9.0
Other Countries.	34.5	33.2	31.3	38.0	34.5	31.3	27.6	28.8	34.2	26.1	31.9	32.2	32.8	36.5
Total[c]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Imports													
United States ..	27.9	16.2	20.4	19.9	20.1	25.0	20.8	4.5	4.8	7.7	12.2	15.5	18.2	28.5
France	1.3	2.6	3.1	3.7	3.6	2.8	1.4	.6	1.5	5.0	7.3	3.1	2.1	2.8
Germany	14.2	23.3	22.7	26.3	21.2	23.7	37.2	46.5	42.5	12.4	9.0	22.8	14.9	4.7
Italy	0.7	3.1	0.5	1.0	0.9	1.0	2.7	3.9	4.9	5.1	2.3	0.4	0.3	..
Netherlands ...	4.8	1.0	0.7	0.4	0.2	0.4	0.2	0.5	1.7	6.8	8.1	5.4	7.9	7.2
Sweden	..	..	..	..	1.9	1.8	1.4	3.1	1.3	2.1	1.3	1.3	1.3	1.9
United Kingdom	15.3	17.1	14.2	5.0	6.2	7.6	6.6	13.1	8.8	19.9	18.0	15.1	14.3	16.9
China	2.8	4.6	5.3	6.0	5.8	4.3	4.2	5.6	11.6	13.8	7.2	5.6	5.8	7.7
Other Countries.	33.0	32.2	33.2	37.6	39.1	33.4	25.5	22.2	22.9	27.3	34.6	30.8	35.2	30.3
Total[c]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[a] Based on Russian Statistics.
[b] Fiscal year ending September 30.
[c] May not always add to 100.0 because of rounding.
Source: *Foreign Commerce Yearbook*, Vol. II, p. 475, 1926; Vol. II, p. 568, 1929; Vol. II,p. 275, 1931; p. 140, 1935; p. 127, 1939.

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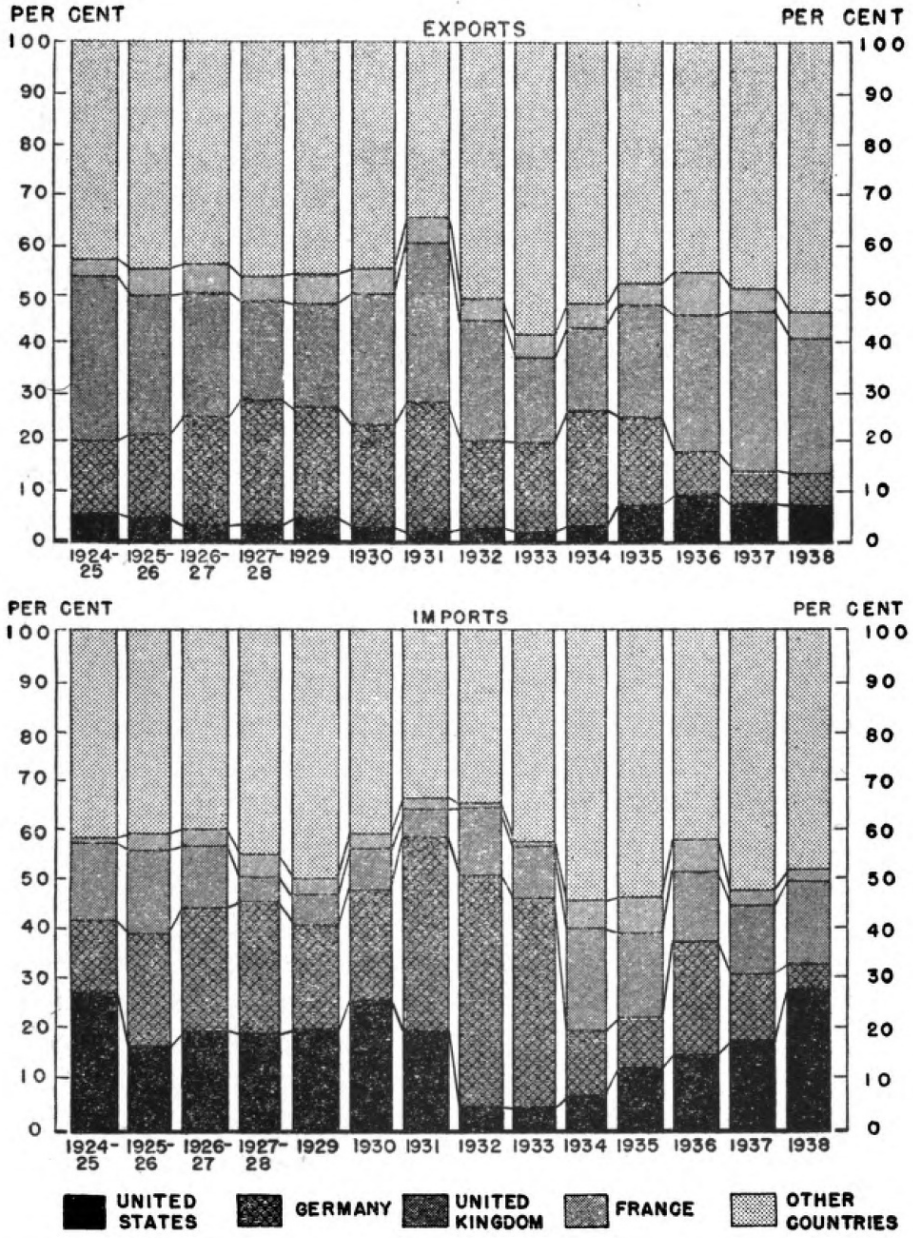
CHART 2
PERCENTAGE DISTRIBUTION OF RUSSIAN EXPORTS AND IMPORTS BY COUNTRY, 1924-1938



SOURCE: TABLE 6

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ing "dumping," and that the alleged absence in the Soviet Union of any necessity for taking "costs of production" in the private-enterprise-sense of the term into account in determining the prices at which export sales could advantageously be transacted made the situation of importing countries vis-à-vis imports from the Soviet Union different from their situation vis-à-vis other exporting countries in which export trade was in private hands. In proposing a pledge of "nondiscrimination," the Soviet representatives were interested only in avoidance of the application to a single country or to a small number of countries of especially unfavorable treatment, solely because of the political or economic systems followed by such country or countries. They pointed out that the difference between the Soviet Union and other countries with respect to the possible intervention of the State in the economic sphere was not so great as might appear at first sight, given the prevalence in other countries of import and export restrictions, exchange controls, government (special) monopolies, cartels, etc. Moreover, the Soviet Government could give a positive and effective guarantee of nondiscrimination, i.e., of nonpromulgation of laws prohibiting the purchase of goods in a particular country.

ADVANTAGES AND DISADVANTAGES OF FOREIGN-TRADE MONOPLIES

Advantages — By concentrating all foreign-trade functions in the hands of the state, the Soviet authorities removed all the numerous middlemen and diverted the profits formerly received by them into the hands of the state. In this way, foreign-trade monopoly became a source of capital accumulation, assisting and accelerating the social reconstruction of the country. For the same reason, the concentration of all operations of foreign trade in the hands of the state, theoretically, increased efficiency in foreign-trade operations by concentrating purchases and sales, thus making it possible to secure lower prices on goods purchased, and to obtain higher prices for commodities sold, and, generally, secure more favorable terms of trade.

The People's Commissariat of Foreign Trade with its comprehensive system of foreign agencies is the state organization which operates this gigantic monopoly. Obviously, this organization is in a position to exert a great deal of pressure, and possesses great

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bargaining power in its relations with individual exporters and importers of other countries, and even in dealings with governments of smaller nations. For instance, in some cases it may demand and may obtain more advantageous terms of trade with regard to credits from individual firms or nations with which it transacts business.[6] At the same time, Soviet export prices often have been forced, or allowed to remain below home prices, because, in general, the internal and external price levels have been unrelated to each other.[7]

Moreover, food and raw materials have been offered to foreign buyers in spite of serious shortages in the home market. The First Five-Year Plan depended largely on a steady inflow of imports, which in the absence of large loans could only be obtained by exports; a difficult and costly operation at a time when the trade of other countries was falling off considerably. It was particularly unfortunate for Russia that this urgent need coincided with the 1929 slump in world prices of raw materials and food products. The combination of circumstances not only dealt Soviet Russia a very serious blow but also rendered sales abroad at distress prices even more inevitable, since other countries were driven to the same expedient in the struggle for shrinking world markets.

Disadvantages — The principal alleged disadvantages of the monopoly of foreign trade are as follows:

(1) The Narkomvneshtorg (People's Commissariat of Foreign Trade) is the government department in charge of the conduct of foreign trade. It is a bureaucratic organization of very large size, greatly centralized, inefficient, and expensive.

(2) Because of its monopoly over the sale of Russian commodities and over the purchase of foreign goods, the Narkomvneshtorg is little concerned with the prices at which it sells goods or buys them.

(3) Its staff is inexperienced and incompetent. It often pays higher prices for goods it orders abroad than private buyers pay, because it is unable to complete large transactions without the aid

[6] Cf. Heilperin, M. A., "Economic Foundations of Peace," *New Europe*, Vol. II, No. 6, p. 159, 1942.

[7] Cf. Burrows, Raymond, *The Problem and Practice of Economic Planning* (P. S. King and Son, Ltd., London, 1937), p. 213.

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of intermediaries. When it buys on credit, part payments are made with notes which until recently had little credit in world money markets and which were discounted by foreign sellers at enormous rates (up to 30 per cent), a fact which was naturally reflected in the sales prices of the goods purchased.[8]

(4) The monopoly of foreign trade eliminated healthy competition between Russian industries and foreign firms in the production of competitive commodities, thus tending to promote inefficiency in Soviet industries.

EXPORT AND IMPORT PLANNING

Character and Volume of Imports Desired Are the Basis for Foreign-Trade Plans — In drafting the foreign-trade program in Soviet Russia, first consideration is given to the determination of the character and volume of imports. The import plan is designed by the Soviet authorities to meet the most pressing needs of the national economy. Exports are then planned so that the proceeds from the sale of goods, receipts from invisible items, such as tourist expenditures, and other foreign credits will equal the payments to be made for all imports, and for foreign indebtedness falling due during the period. The import trade of Soviet Russia has been consistently coordinated with the fundamental aim of the Soviet authorities, namely, the development of a powerful industrial state with relative economic independence from the rest of the world. Consequently, the bulk of Soviet imports have consisted largely of machinery, industrial equipment, and raw materials. Imports of consumers' goods were kept as low as possible, and during the First and Second Five-Year Plans were practically eliminated.

After the adoption of the five-year plans, and prior to World War II, the U. S. S. R. had succeeded in greatly reducing, and in some cases had discontinued, the importation of automobiles, tractors, agricultural machinery, iron and steel products, cotton, wood, paper, etc. The volume of foreign trade was deliberately held down in order to limit exports essentially to surplus products of the national economy, and in order to limit imports primarily to goods and services which would promote industrial self-suffici-

[8] Cf. Yugow, *op. cit.*, p. 98.

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ency. As mentioned above, however, between 1930 and 1934 the Soviets were forced to export a much greater volume of commodities, particularly food, in order to pay for their imports, due to a considerable decline in world prices for raw materials and food products. Before World War II, Soviet Russia had achieved a high degree of economic independence in a relatively short period of time, but the price that she had to pay was stupendous. The economic independence so quickly achieved was paid for by low-priced exports which financed the importation of relatively expensive capital goods. However, it was justified in the eyes of the Soviet authorities because of the need for rapid industrialization of the country and for national defense.

Technique of Importing Goods — All commercial relations of the Soviet Union with foreign countries are under the direction of the People's Commissariat for Foreign Trade (Narkomvneshtorg) which supervises the execution of the foreign-trade plans. The actual import and export operations are carried out by some thirty state-owned corporations, each specializing in certain types of goods. The planned programs are assigned to the various importing organizations with specifications as to the maximum amounts of their expenditures and the periods at which payments will be made. The orders for the importation of foreign products are usually made by an individual factory or trust. The order is sent to one of the importing corporations where it is checked as to its conformity with the general import plan. If the order is approved, a special import license is issued and inquiries are sent to various trade delegations abroad asking for quotations as to price, quality, delivery, and terms of credit. After securing bids from the foreign producers, they are forwarded to import corporations which then instruct one of the trade agencies abroad to enter into a contract for purchasing the goods.

EXPORT PLANNING

As previously stated, the U. S. S. R. exports only to the extent that the proceeds of the export trade are needed to pay for imported goods, freight, technical assistance, and services of foreign experts and firms, and to accumulate a foreign-currency reserve.

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The coordination of exports and imports is achieved by the planning of a rough balance between receipts and expenditures of foreign currency (the Valuta Plan).

Decisions as to the nature and structure of Soviet exports at any given time are based on comprehensive estimates as to what promises the greater advantage for socialist economic purposes: to use available material resources, for which a market abroad exists, directly for the needs of the national economy, or to use them indirectly through exports and with the proceeds of their sale to purchase necessary goods abroad or to pay for technical assistance of foreign experts. In deciding upon their foreign-trade plans, the Soviet authorities endeavor not only to balance their imports and exports, but also to achieve a favorable balance of trade, i.e., to have an excess of exports over imports, in order to create a foreign-currency reserve for emergency purchases abroad.

The planning of the regulating and operating foreign-trade bodies is closely interrelated since any changes in the plans of one will immediately affect all of them. The delivery of goods for export, their shipment, and their sale (delivery to the purchaser) are the principal factors in export planning. The five-year plan of Soviet exports is a broad outline of the program of Soviet exports; the annual plan, naturally, is more detailed, and the quarterly plan is a highly detailed and comprehensive plan of items to be exported, the times of export and the destination of exports.

Based on the general instructions given by the State Planning Board (Gosplan), the Commissariat of Foreign Trade draws up the control figures for the plan and communicates them to the export corporations and the agents of the Commissariat. These agencies draw up their annual plans which are then sent back to the Commissariat for inclusion into the general export plan which is then approved by the Gosplan and is included in the general over-all national plan. The export plan is based on two factors, (1) estimates of resources available for export, and (2) estimates of possible sales in foreign markets.

The first factor, estimates of resources available for export, is ascertained from "balance sheets in kind," i.e., itemized accounts of the production and distribution of any particular product.

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These accounts are prepared by the agencies which regulate the production and distribution of goods. The second factor, demand in foreign markets, is determined by an analysis of the demand of foreign markets for goods, the production and consumption by the world of the goods which the Soviet Union desires to sell, and the restrictions imposed by foreign countries on the imports of Soviet goods. The last point is important since the Soviet Union does not usually import goods from countries pursuing anti-Soviet policies. The import monopoly of the U. S. S. R., as indicated previously, is a powerful weapon in influencing the attitudes of countries interested in Soviet markets. As a general rule, however, while concentrating its sales in the most favorable markets, the Commissariat of Foreign Trade aims at spreading its sales over a number of markets so as not to become dependent on any one market.

In order to serve as a guide to export agencies, the plan answers a series of questions: What demand will be made on the organization during the planned period with respect to the quanity of goods to be exported and sold, what goods are to be exported, and at what dates. It also indicates the particular branches of industry or purchasing organization which can and will supply the goods, and the districts and particular factories from which they are to come. In addition, the plan designates the countries to which the exported goods are to be sold, costs and prices, and the methods of sale. Plans for the delivery of goods are made by the Supply Commissariat and other agencies; they are also approved by the Commissariat of Foreign Trade. Finally, plans are drawn as to expenses connected with the transit of goods, overhead charges, and other expenses, including a calculation of the costs of goods for each separate class of goods for each country of sale, and for each method of sale, when the methods of sale differ in a given country.

The export corporations receive goods for export from the purchasing organs in accordance with the general plan of delivery of goods for export. The relations between the export corporations and suppliers are regulated by contracts, based on these plans, which define the procedures for the delivery of goods for

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export. These contracts stipulate the quantity of goods which the given supplier is obliged to deliver, the quality of these goods, manner of packing, price of goods, manner of delivery, terms of payment, and mutual penalties to be imposed for violation of the terms of the contract.

In summary, then, the Soviet Union exports goods in order to procure the means to pay for foreign capital goods and foreign technical assistance. The quantity and nature of the commodities assigned for export are determined by the planning organs of the state on the basis of the volume of imports decided upon by them, and the amount of foreign currency that will be, accordingly, required. But, in order to procure a definite amount of foreign currency, the Soviet Union may export more or less goods, depending on whether the proceeds from the sale of these goods are low or high. In general, trading relations are established with as many countries as possible, but sympathetic treatment, economic and political, is an important qualification to the general rule.

Evolution of the Organizational Forms of Soviet Foreign Trade

The economic growth of the Soviet Union inevitably involved a search for new forms of organizations of economic activity. Consequently, the agencies connected with foreign trade assumed different forms at different stages of economic development. Four main stages may be clearly distinguished in the evolution of the organizational forms of Soviet foreign trade which corresponds to the periods of (1) war communism, (2) the restoration of Soviet economic life (1921-1927), (3) "socialist reconstruction" (First Five-Year Plan), and (4) "extended socialist advance."

THE PERIOD OF WAR COMMUNISM

In an article entitled "The Immediate Tasks of the Soviet Govarnment" written in 1918, Vladimir I. Lenin said: "First of all we must accomplish the simple things, properly organize what is available, and then prepare for more intricate things. Let us consolidate and regulate the state monopolies (monopolies of grain, leather, etc., were introduced in the latter part of 1917), which

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have been introduced already, and through them pave the way for the state monopoly of foreign trade. Without such a monopoly we shall not be able to save ourselves from paying tribute to foreign capital."[9]

On December 29, 1917, the Council of People's Commissars issued a decree setting up a system of foreign-trade embargoes and licenses. According to this decree, the importation of goods into, and the exportation of goods from the Russian Socialist Federated Soviet Republics (later designated as the U. S. S. R.) could be done only on the basis of special licenses issued by the Department of Foreign Trade of the Commissariat of Trade and Industry. But, as formerly, foreign trade itself could be carried on by any interested persons or organizations. By setting up the system of licenses and embargoes the country took the first step towards the state regulation of foreign trade, without, for the time being, modifying the institutions of foreign trade which had developed prior to the revolution. This system lasted only four months, and, on April 22, 1918, the foreign trade of Soviet Russia was nationalized by government decree. From that time on, all foreign-trade operations could be carried out only in the name of the Russian Republic, by bodies especially empowered for this purpose.

The organization of the entire business of importing and exporting goods was entrusted to a Council of Foreign Trade included in the People's Commissariat of Trade and Industry. The Council of Foreign Trade was a supervisory body, while the practical operations were conducted by state purchasing commissions and agents, cooperative societies, and commerical firms.

In the years 1918 and 1919, during the civil war and the Allied blockade, foreign trade of the Soviet Union came to a standstill. A change was observed in 1920 when, after the end of the civil war, the Supreme Economic Council of the Allies removed the blockade from Russia. The conclusion of peace with Estonia in 1920 was followed by a partial restoration of foreign trade with the Western nations. In March, 1920, a delegation of the Central Union of Cooperative Societies went to England for the purpose of conducting trade negotiations. A general restoration of foreign trade began, but in the early period of 1920-1921 it was mainly

[9] Zhirmunskii, M., *Soviet Exports* (Mezhdunarodnaya Kniga, Moscow, 1936), p. 16.

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confined to imports. The export trade was sporadic because of the extreme state of exhaustion of the country resulting from the civil war and the famine of 1921, and the consequent absence of goods for export.

A new decree, dated June 11, 1920, gave more concrete form to the organizational principles laid down in the decree of 1918. Stressing the importance of foreign trade under the new conditions, this decree changed the name of the People's Commissariat of Trade and Industry to the People's Commissariat of Foreign Trade. It was entrusted with the exclusive right to carry on trade with foreign nations, public and private institutions and organizations, commercial and industrial enterprises, and with individuals, and to conduct, through appropriate bodies, all operations connected with the import and export of goods. The People's Commissariat of Foreign Trade was given the unrestricted right of regulating the activities of all other departments and organizations in the Russian Socialist Federated Soviet Republics connected with foreign trade.[10]

The centralization of all operations connected with foreign trade in the hands of the People's Commissariat of Foreign Trade was dictated by the necessity of frustrating all attempts made to undermine the Soviet Government economically, and to enable the Commissariat to organize some kind of orderly system for trading with foreign countries. The Commissariat made no independent purchases of goods for export, but received them from the governmental purchase and supply organizations through a "Committee of Utilization" (a government body planning the distribution of commodities). The work of the Commissariat of Foreign Trade was chiefly carried on abroad, while within the country the work was carried on by the Export Department of the Commissariat. At the same time, a number of Trade Representatives, Trade Delegations, Trade Agencies, etc., were opened in the main commercial centers abroad.

PERIOD OF RESTORATION, 1921-1927

The great changes in the economic life of the country brought about by the New Economic Policy (N. E. P.) necessitated radical

[10] Cf. *Ibid.*, p. 22.

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changes in the organization of foreign trade. The method of imposing quotas on peasant households for the delivery of goods for export was abandoned, and the Commissariat of Foreign Trade itself was obliged to purchase commodities in a relatively free market. Large-scale industry, taken over by the government in 1918, was permitted to sell goods directly in foreign markets under the supervision of the Commissariat of Foreign Trade. Attempts, also, were made to enlist foreign capital in the form of mixed Russian and foreign companies for the disposal of Russian exports abroad. The Foreign Trade Commissariat became chiefly a regulating and controlling body, while the actual operations were in the hands of a new state export and import board, called "Gostorg," with branches in all federated republics and regions. The Gostorg engaged in the purchase of commodities, such as bristles, furs, casings, and flax, for export. A number of state-owned industries were allowed to sell products of their manufacture, but always under the supervision of the Commissariat of Foreign Trade. The largest organizations were the Naphtha Syndicate (selling petroleum products), the Leather Syndicate (selling raw leather, bristles, horsehair, and furs), the Flax Trading Company, a number of timber organizations, and a number of cooperative organizations. Finally, twelve large mixed corporations, such as the Russian-Dutch Timber Company, the Anglo-Russian Timber Company, the Egg Export Company, the Russo-German Trading Company, the Soviet-Polish Trading Company, and the Austro-Russian Trading Company were established. In addition, four concessions were granted to foreign capital for the exploitation of natural resources in Russia (see page 60 for discussion of concessions).

With the restoration of economic life by 1926 and the swift growth of industries in the Soviet Union, a rapid expansion and diversification of trade with foreign countries occurred. At the same time, the problem of better coordination of the foreign trade of the country with the domestic trade became more acute, since the two types of trade were handled by two different commissariats—The People's Commissariat of Domestic Trade and the People's Commissariat of Foreign Trade.[11] Joint-stock corpora-

[11] Cf. *Ibid.*, p. 46.

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tions, share companies, and syndicates dealing with special categories of goods were organized by the government, besides the independent Gostorgs, to promote foreign trade. This complex setup made it impossible, however, to regulate and control exports and imports effectively.

SOCIALIST RECONSTRUCTION — FIRST FIVE-YEAR PLAN

By the middle of 1929, with the enactment of the First Five-Year Plan, the Commissariat of Foreign Trade was reorganized and a new agency, a commissariat of supply, was created. At that time the mobilization of the resources of the country became the main economic problem, while the task of foreign trade was to mobilize export resources of the country and to distribute them in foreign markets in such a way as to counteract the unfavorable influence of the world economic crisis. The new feature of the reorganization of the export trade was the separation of the function of collecting and preparing goods (chiefly agricutural products) for export from that of exporting and selling them abroad. From that time on the Commissariat of Foreign Trade became a supervisory and controlling body.[12] The collection and preparation of goods for export was in the hands of purchasing organizations and large industrial trusts, while exports and sales of goods were concentrated in export corporations.

Also, the People's Commissariat of Foreign Trade has the legal powers to take measures against foreign nations which discriminate against Soviet Russia in the field of foreign trade. By the law of March 17, 1927, passed soon after the raid of the British police on the quarters of the Soviet trade delegation in London, the Commissariat was instructed to see that foreign trade is carried on only in those countries with which normal diplomatic relations exist, and where the Soviet trade agencies are guaranteed normal conditions for commercial operations. By the decree of October 20, 1930, the People's Commissariat of Foreign Trade was authorized to take special measures with regard to those countries which hinder the normal imports of Soviet goods. The Commissariat, among other things, was empowered to stop or to reduce to the greatest possible extent orders and purchases in these countries, to

[12] Cf. Yanson, *op. cit.*, p. 143.

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cease employing the shipping of these countries, and to institute special restrictive rules for transit of goods.

PERIOD OF "EXTENDED SOCIALIST ADVANCE"

In July, 1935, the Council of People's Commissars empowered the Commissariat of Foreign Trade to grant its export, import, and transport corporations the right to conclude transactions with foreign companies both abroad and in the U. S. S. R. in their own behalf. Since 1936, the principal operating agents of the export trade are export corporations which operate under the general control and supervision of the Commissariat of Foreign Trade. There are approximately thirty of these export corporations which specialize in handling the main classes of exports, such as petroleum and its products, coal, industrial products, grains, lumber and timber, and furs. Certain of these corporations are engaged also in the import of goods. Special import and export corporations deal with China, Afghanistan, Mongolia, and the Tuva Republic. The export corporations are divided into operating departments which deal with definite commodities. Each department handles such problems as planning, ensuring the supply of goods, standardization of goods, exporting the goods, conducting negotiations with representatives of foreign firms and concluding contracts with them.

FUNCTIONS OF THE PEOPLE'S COMMISSARIAT OF FOREIGN TRADE AND OF ITS AGENCIES SINCE 1936

Just prior to World War II, the chief functions and duties of the People's Commissariat of Foreign Trade were: (1) to examine and ratify plans governing the delivery, export, and sale of goods; (2) to exercise general supervision and control over the fulfillment of these plans; (3) to supervise and control the sale of goods and to conclude contracts; (4) to guide in the work of rationalizing export trade and increasing its profits; (5) to adopt measures for increasing existing export resources and ascertaining new resources. Sections of the Export Department have charge of all problems relating to export corporations. They examine all export plans, organize exports of particular commodities, determine selling price limits, check the quality of goods exported, and audit

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and ratify all plans and estimates of expenditures. The Commissariat has agents throughout the federated and autonomous republics. Abroad, it acts through its trade representatives, established in all countries, with which the U. S. S. R. has diplomatic and trade relations.[13]

Trade representatives, or delegates, of the Commissariat of Foreign Trade officially represent its interests abroad. They represent and defend the interests of the Soviet Union in the sphere of foreign trade, promote trade and economic relations with foreign countries, and regulate trade of the Soviet Union with a given country. Since they are members of embassies of the U. S. S. R. abroad, they enjoy the rights of extra-territoriality. They are immune to laws of foreign states, and their activities are not subject to the jurisdiction of foreign countries. They may appear in foreign countries as plaintiffs, but as defendants, only with the consent of the U. S. S. R.[14]

Trade agencies of the U. S. S. R., which are usually set up in countries where no trade delegations are present, represent the U. S. S. R. chiefly in the countries of the East and Near East.[15] There are also special foreign companies, such as Arcos Ltd., in London, Amtorg in New York, and Derop in Berlin (closed with the beginning of the war). These companies handle the goods of the export corporations and are usually incorporated under local law. In addition, there are other public organizations for fostering and strengthening economic relations between the U.S.S.R.

[13] The chartering of foreign ships is concentrated in the hands of the Commissariat for Foreign Trade. The Soviet chartering monopoly is held by a special All-Union organization, the "Sovfrakht," which has the exclusive right to charter foreign ships both in the U. S. S. R. and abroad. Another organization, "Vneshtorgtrans," has the monopoly of all transport, forwarding, storage, loading and unloading, insurance, and stevedoring connected with Soviet trade. Both "Sovfrakht" and "Vneshtorgtrans" have the right to operate in foreign markets.

The vessels are chartered in the chief world markets, in London and in other shipping centers. All foreign flags which represent any commercial interest are drawn into the work for Soviet exports and imports. If difficulties are met within one market from severe conditions or arbitrary measures directed against Soviet Russia, the dealings can be easily shifted to another market.

Such a system keeps Sovfrakht in touch with the freight markets in all parts of the world, and links Soviet chartering operations with the whole of the Soviet trade policy towards the country in question. The preference for one flag or another is dictated by (1) freight rates, (2) conditions offered, and (3) by the general conditions for Soviet trade in that country.

[14] Cf. Yanson, *op. cit.*, p. 146.

[15] Cf. *Ibid.*, p. 149.

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and foreign countries, such as, the American-Russian Chamber of Commerce located in New York, and the All-Union Chamber of Commerce in Moscow.

In many cases, negotiations covering contracts with foreign firms and contracts for Soviet foreign trade take place in Moscow. In such cases, a foreign firm establishes an agency and sends representatives. Soviet law, in general, allows foreign firms to participate in the economic activities of the U. S. S. R. Foreign organizations and individuals are allowed to transact trade operations in Soviet Russia and to establish agencies, offices, and branches to that end, but always with the permission of the Commissariat of Foreign Trade.[16] Since 1938, the tendency has been to negotiate in Moscow the majority of contracts dealing with the Soviet foreign trade.

Since a large number of trade contracts are concluded abroad, special arrangements for all disputes that may arise between the contracting parties must be made. Provisions are usually made for submitting disputes to foreign courts or courts of arbitration.[17]

Financing Foreign Trade

FOREIGN-CURRENCY PLANNING

The plan of international accounts of the U. S. S. R., or the Valuta plan, is a balance sheet of monetary transactions between the Soviet Union and foreign countries which are expected to take place within a definite period of time in the future. The methods and forms of foreign-currency planning have been changed many times because of changing economic conditions of the country. Before 1930, the foreign-currency plans were much less detailed and exact. A number of currency transactions were not included in the plans, and large foreign-exchange credits at the disposal of trade representatives abroad were not included. Moreover, the whole character of planning was rather general and undeveloped in the early period of the Soviet Union.

In 1930, the decision was made that the foreign-currency plan of the U. S. S. R. should include, without exception, all foreign-

[16] Cf. *Ibid.*, p. 158.
[17] Cf. *Ibid.*, p. 159.

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currency receipts and expenses of the nation. The methods of accounting with foreign companies and banks were changed, and all increases or decreases in foreign currency were credited or debited to the Gosbank. Moreover, the bank was permitted to refuse payment in foreign exchange for transactions which were not anticipated and included in the plan.

The Valuta Plan — The Valuta Plan of the U. S. S. R. consists mainly of two parts: (1) the currency plan dealing with noncommercial operations, and (2) the currency plan dealing with foreign trade. The former includes all kinds of currency income and outgo of the nation which are not connected with trade, such as expenses connected with representation abroad, expenses and income connected with borrowing abroad, financial transactions with foreign concessionaries and technical help, income and expenses of tourists, and transportation income and expenses.

The second part of the currency plan deals with commercial transactions. These include all accounts of the U. S. S. R. with foreign countries which are related directly or indirectly to foreign trade. For example, prior to their liquidation, they included the operations of Torgsin stores which are discussed later in this chapter. Because of the special character of trade relations with Oriental countries, whose currencies are not quoted in the world monetary markets or whose trade is based on barter, a special plan for trading with the Orient is made.

The Valuta plan of commercial operations is based upon the plans of the separate export and import organizations, and those of the Gosbank. On the basis of these plans, the Commissariat of Foreign Trade draws its own general plan which is approved by the State Planning Board. The plan dealing with noncommercial items is prepared by the Commissariat of Finance. The currency plan is expressed in rubles as quoted by the Gosbank as of the date the plan is drawn, although income is received and payments are made in foreign currency.

The plan which includes all basic quantitative and qualitative data of the individual foreign-trade organizations is called the "financial" plan. The summary of the financial plan is an over-all

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attempt to estimate changes which will take place during the planned period with regard to the independent agencies connected with foreign-trade operations, and to relate these changes to the general plan of the Soviet Union. It includes, among other things, the amount of financial help that each agency must receive from the state, the expected net income of each agency, and the taxes that the agency will have to pay to the state. Thus, the financial plan of foreign trade is linked with the budget of the nation, the credit plan of the Gosbank, and, through them, with the over-all financial plan of the U. S. S. R.

The finance plan of import organizations is much less complicated than that of the export agencies. The great majority of import organizations are actually commission agencies which execute the orders of Soviet consumers (trusts, combines, and other industrial enterprises), and which merely buy commodities abroad and distribute them to Soviet buyers. Such agencies seldom purchase goods for themselves, and they do not invest capital.

Planning Export Operations — The export plan (foreign-currency accumulation plan) is made up of three parts; namely, the delivery of goods for export, the export plan, and the plan of realization. The last two plans are the most important. The export plan deals with the quantity and cost of commodities to be exported. The realized price of goods is based upon actual prices received for similar goods in the preceding two months, taking into account world prices. The export plan computes the average weighted price of each commodity. The plan of realization is important because it deals with the delivery of goods to the buyer and with the final termination of the sale. The importance of the Valuta export plan lies in the fact that it is a careful estimate of the total net income that Soviet Russia will realize within a period of time from the sales of exports, that is, total receipts less expenses connected with these sales.

Planning Import Operations — The import plan is divided into two main parts: the import plan and the delivery plan. The former is the plan for the distribution of orders and for the buying of commodities abroad within a given period of time. It does

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not include the actual transportation of goods into Soviet Russia. The plan includes a list of commodities which must be purchased or ordered. It specifies only within limits the value of some commodities which can be purchased or ordered. However, with regard to raw materials and semimanufactured goods, value and quantity are specified with the dates of payments indicated, in order that sufficient foreign currency will be available to make payment when due. Permission for ordering and buying goods abroad is issued by the Commissariat of Foreign Trade. The license or permit shows the name of the organization purchasing or ordering goods, the quantity and value of goods, the expenses connected with purchasing, and the conditions of delivery. The license for purchasing or ordering goods is sent to the Trade Representative abroad.

The delivery plan deals with the transfer of goods to the Soviet border, ports, or purchasing organizations. It also includes the quantity and value of the goods purchased.

It is important to note that expenses anticipated in the import plans are simply expenditure limits beyond which foreign exchange cannot be expended for a given item. Organizations making payments for import operations are required to watch the transfers of currency abroad, since payments can be made only for expenses which have been anticipated and approved in the Valuta plan. The size, therefore, of these payments must not be larger than the amount of foreign exchange earmarked for a particular expense.

The payments of expenses scheduled by the plans are controlled by the Gosbank, which will not transfer foreign currency abroad if these expenses are not anticipated and approved by the government, or if they exceed the limits set in the plan.

The fulfillment of the export plan means that the export organizations have been able to bring revenue of a specified amount to the state in the form of foreign currency; while the fulfillment of the import plan means that the net increase in foreign currency held by the state is decreased by a specified total value of imports. From 1933 through 1937, the value of Soviet Russia's exports was larger than the value of its imports, indicating that the U. S. S. R.,

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as soon as possible, developed and maintained a working reserve of foreign exchange.

The Valuta plans of the U. S. S. R. are expressed in rubles, the value of which is determined by the Gosbank as of a certain date. Trade plans in which the unit of account is a foreign currency are made with individual countries. They are made on a yearly and quarterly basis and show the balance of receipts and payments. As mentioned previously, the Commissariat of Foreign Trade is responsible for the execution of the currency plans, but the Gosbank is responsible for all currency operations. Because of these centralized functions, the U. S. S. R. is the only country in the world which is able to know currently its total balance of international payments, and its current balance of payments with each separate country.

CURRENCY LAWS OF THE U. S. S. R. AND BANKING OPERATIONS FOR FINANCING FOREIGN TRADE

The Soviet Government has made two attempts to stabilize its currency. The first time, in October, 1922, was the introduction of the "chervonetz" with a value equivalent to 10 rubles of prewar Russian coinage. (The gold ruble of 1914 was equivalent to 51.46 American gold cents and contained 0.774234 grains of pure gold.) But in time, mainly during the First Five-Year Plan, the ruble depreciated greatly. The second attempt at stabilization was the law of March 14, 1936, which established the ruble at a value equivalent to 3 French francs (so-called Poincaré franc), or approximately 20 American cents. The actual purchasing power, however, of the ruble has been much lower. The official quotations of the Soviet ruble are purely nominal and simply indicate at what prices the Gosbank will buy foreign exchange. The exportation of Soviet currency is prohibited. The Gosbank has an absolute monopoly of all transactions in gold, silver, platinum, foreign exchange (cash, checks, drafts, etc.), and in foreign securities (stocks, bonds, coupons, etc.). Foreigners living temporarily in Soviet Russia may re-export foreign exchange or securities, if they report them at the time of entry, personally or through Soviet banks, within two months after their arrival. Checks, letters of credit, bills, and other kinds of money orders, imported by such

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persons, may be re-exported. Foreign citizens residing in Russia or abroad, and Russian citizens residing abroad may open accounts in foreign exchange with the Gosbank or Vneshtorg bank (bank for foreign trade) under certain conditions, and may order withdrawals payable abroad in the same currency, or in Soviet currency within the Soviet Union, but checks cannot be sent abroad. Foreigners and foreign firms doing business in the U. S. S. R. may open current accounts in rubles at both banks, but they are permitted to make withdrawals only as long as they remain in the Soviet Union.

Foreign currency is sold by the bank according to rates established by a special department of the bank. There are no other quotations for foreign exchange. The Gosbank, daily, buys foreign currencies, on the basis of these quotations, from export organizations and sells them to import and other organizations which have accounts in foreign countries, concessionaries, and private individuals having special permission of the Commissariat of Finances of the U. S. S. R. to transfer foreign exchange abroad. The same foreign exchange rates are used in all the plans and operations of foreign-trade organizations of the U. S. S. R.

All accounts between the foreign-trade organizations and the Gosbank are handled in Soviet currency. Credits and advances of the Gosbank for goods to be exported which are still in Russian territory are granted in Soviet currency. However, payments for these goods are immediately credited to the Gosbank, that is, the Gosbank acquires all foreign exchange. With regard to payments for imported goods, the general procedure of the Gosbank is to request its correspondent agency abroad to pay in foreign exchange for the goods purchased and for other expenses of the trade representatives. The latter then reimburses the Gosbank for these expenditures in Russian currency at rates of exchange specified by the bank.

The planning of credit operations by the Gosbank is an important factor in the currency planning of Soviet Russia. The use of foreign exchange credits is permitted only when actually required by the interests of the country, and on the basis of a thorough knowledge of its balance of payments. The interna-

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tional accounts of the U. S. S. R. are settled by the Gosbank through correspondent banks located abroad. These banks hold deposits, that is, foreign credits, of the Gosbank. The deposits of the Gosbank abroad are much larger than those of foreign banks with the Gosbank, since the receipts from exports and payments for imports are generally handled abroad by trade representatives in terms of foreign currencies. Moreover, the future accounts of the Gosbank with foreign correspondent banks are known beforehand on the basis of planned operations so that a credit balance in foreign exchange can usually be maintained. The analysis of the elements of the currency plan, which is a schedule of the balance of payments of the U. S. S. R. for a definite future period of time, shows the approximate turnover of accounts with correspondent banks. Furthermore, the export and import plans by individual countries enable the Gosbank to foresee the balance of payments with each country. Under such conditions the distribution of foreign-trade accounts is so handled as to avoid the need for foreign-exchange credits, and to promote the economic independence of the Soviet union.

BALANCE OF PAYMENTS OF THE U. S. S. R.

In Soviet Russia, the way in which the balance of international payments is ascertained, and the functional use made of such balances in relation to the economy of the country differ from capitalistic countries. The international accounts of the Soviet Union are not the result of uncontrolled processes taking place in the national economy of the country. The entire economic life of the U. S. S. R., as expressed in the new constitution, "is regulated and directed by a single national economic plan." Economic relations with other countries are an important part of the national plan. The volume of exports and imports and the amount of foreign exchange receipts and payments are planned in the same way as production, trade turnover, and other operations of the economic life of the country.

The international balances of capitalistic nations consist of thousands of individual transactions—purchases, sales, loans, and movements of gold, carried on mostly by individual businessmen and their organizations. Therefore, in drawing up a balance of

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payments in capitalist countries, it is necessary to use a great variety of statistical information received from firms, banks, and insurance companies with regard to their past transactions. This information and some estimates made by experts are combined with official statistics of exports and imports of merchandise in order to arrive at a yearly statement of the international accounts of a free-enterprise economy.

In Soviet Russia, on the other hand, the foreign-trade monopoly and the concentration of all accounts with the outside world in the Gosbank simplify the procedure greatly. The balance of payments is based on values of actual daily, monthly, and quarterly operations of the Gosbank. Thus, at any given period of time, the bank has a clear picture of the state of its foreign-exchange resources. Another feature of the Russian balance-of-payments is that it has the character of a cash balance which the strict planning of all economic activity in the Soviet Union makes possible. The Valuta plan, as indicated previously, is actually a prospective payment balance.[18] The items entering into the balance of payments of the U. S. S. R. for the years 1935 and 1936, are shown in Table 7.

There is very little information on the production of gold in the U. S. S. R. as no regular statistics on gold production in Soviet Russia are available, but data of percentage changes, irregularly given out by officials of the gold-mining industry together with certain direct figures for past years afford a basis for estimating annual production as follows: 1934, $135 million; 1935, $158 million; 1936, $187 million; 1937, $185 million; 1938, $180 million.[19]

An ingenious device was used by the Soviet authorities during the First and Second Five-Year Plans to obtain gold and silver coins and hoarded foreign exchange from the Russian population. Special stores, called Torgsin, were opened in all cities and the Soviet citizen was permitted to buy there imported consumer goods at reasonable prices. It was a very successful venture since the population, attracted by the high quality of foreign goods, in

[18] Stefanov, N., "The Soviet Balance of Payments," *The Journal of Commerce and Commercial,* Second Section, April 26, 1937, p. 21.

[19] *Federal Reserve Bulletin* (Board of Governors of the Federal Reserve System, Washington, D. C.), July, 1945, p. 707.

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a short time paid to these stores about $150 million in foreign exchange or precious metals. The greater part of this amount came, however, from abroad as gifts. Individuals outside Russia desiring to help relatives or friends living in Russia could buy an order for any amount from the representatives of these stores

TABLE 7—BALANCE OF PAYMENTS OF THE U. S. S. R., 1935 AND 1936
(Millions of Rubles)

Items	1935	1936
Receipts:		
Export of goods	1,800	1,497
Receipts from transport and insurance	76	92
Non-commercial money remittance (aid to Soviet citizens from relatives abroad, etc.)	62	7
Expenditures by foreigners in U. S. S. R.	29	35
Other receipts	165	32
Sale of gold abroad	32	..
Total	2,184	1,663
Expenditures:		
Imports of goods (transport and insurance included)	860	1,328
Budget expenditures abroad (upkeep of U. S. S. R. representatives abroad, etc.)	57	55
Interest paid on foreign credits	89	44
Foreign technical cooperation (in connection with the installation and assembling of new industrial equipment)	23	23
Other expenditures	..	62
Total	1,029	1,512
Sinking Fund on Payments on foreign credits	1,005	....
Total	2,034	1,512
Surplus of the balance of payments	150	151

Source: de Basili, *Russia Under Soviet Rule* (George Allen and Unwin, Ltd., London, 1938), pp. 354-55.

which was paid for in foreign currency. The order was then sent to the relatives or friends in Russia who could use it for purchases from the local Torgsin store. By February 1, 1936, Torgsin stores were closed throughout Russia, apparently because the Russian citizens had exhausted their holdings in foreign exchange and jewelry.

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CHAPTER IV

FOREIGN-TRADE POLICIES AND WORLD TRADE OF SOVIET RUSSIA

Foreign-Trade Policies

As indicated previously, the Soviet government introduced the monopoly of foreign trade early in 1918, but not until the end of 1920 was the government able to devote its attention to problems of foreign trade. Three important events occurred during 1920. They were the signing of the peace treaty with Estonia, the lifting of the Allied blockade of Russia, and the end of the civil war. But, having decided to restore trade relations with foreign countries, the Soviet government met a number of serious obstacles. First, the capitalistic countries did not recognize the Soviet government as the legal government of Russia, and, consequently, declined to conclude trade agreements with it. Second, the capitalistic countries looked at the Soviet government with fear and suspicion, since the Bolsheviks openly proclaimed their intentions to overthrow, by force if necessary, the capitalistic economy of other nations, and conducted a spirited propaganda to that effect. Third, in 1918, the Soviet government repudiated all the foreign obligations of the former Russian government, expropriated private property, and nationalized industries not only of its own citizens but also of foreigners who had large investments in Russian banks, railroads, mines, public utilities, and industrial enterprises. Since the Soviet government refused to settle these claims, foreign governments were reluctant to resume trade relations with Russia.[1]

[1] The Soviet government insisted on its recognition by other nations as a preliminary step toward a discussion of the repudiated Russian debts and restoration of indemnity payments to foreign owners of the confiscated property. Later this argument was somewhat changed, the Soviets asking for a large loan as a preliminary step for a discussion of the debts problem and arguing that they could not pay interest and principal on the Russian debt unless a loan was granted to them. They also presented counter claims for damage done to Russia by the Allied Powers during the blockade and their intervention into the affairs of Russia during the Civil War. The foreign governments were, however, reluctant to agree to such proposals and a stalemate lasting several years ensued.

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The Soviet government was forced, therefore, to confine itself to trading through the Centrosoyuz, one of the largest cooperative associations in Russia at that time. The first large transactions for purchasing consumers' and producers' goods, which were greatly needed for the reconstruction of the national economy and for relieving distress of the population, were concluded in 1920 by the delegations of Centrosoyuz in Sweden and England. In March, 1920, the English government opened negotiations for a trade agreement, and one year later the first temporary trade agreement was signed with Great Britain. Thus, Great Britain was the first great capitalistic country to recognize the Soviet government as a de facto government and to resume regular trade relations with the Soviet Union.

TARIFFS

The general customs tariff of the U. S. S. R. is a high protective tariff, but its protective effect is very slight because of the monopoly of foreign trade under which no one is permitted to import or export anything without the special permission of the Commissariat of Foreign Trade. However, high tariff duties are considered as an additional or supplementary method of regulating trade relations between Soviet Russia and capitalistic states. The high protective tariff strengthens the economic independence of the U. S. S. R.[2] In many cases, however, special permission is given by the government to various Soviet organizations for importation of necessary commodities at lower rates of duty, or free of duty. A special lower tariff exists for some goods imported over certain frontiers, chiefly from Oriental nations. In some treaties with foreign nations (Italy, Norway, France, Turkey, Latvia), there is a special reduction provided in tariffs for certain commodities, or a special most-favored-nation clause, although such concessions on the part of the Soviet government are of little significance because of the basic character of the monopoly of foreign trade.

Soviet tariffs may have some practical importance within Russia, in that they force industries importing foreign equipment

[2] *Financy i Kredit S. S. S. R. (Finances and Credit of the U. S. S. R.)*, edited by G. A. Kozlov (Gosfinizdat, Moscow, 1938), p. 437-38.

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or goods to add the tariff duty to the cost of imports which restrains them from buying goods abroad, especially when they can be manufactured in Russia. They are significant, also, with regard to a limited number of articles for personal consumption, the importation of which is permitted without special license, and shipments are made by parcel post only. Such articles are sent in limited quantity by private persons to individual Soviet citizens for their personal use only; in other words, they are gifts from one person to another. This business is performed through special agencies located abroad, and the senders pay very high custom taxes in foreign exchange for the privilege of sending gifts to their relatives and friends.[3]

Private persons and organizations may occasionally receive special licenses for importation of articles for their own use. For instance, Soviet citizens returning from abroad and having such licenses pay a fee of 4 per cent ad valorem in addition to regular custom taxes. In general, custom tariffs on goods which are used by state-owned industries are negligible (mostly 1 per cent ad valorem), while consumers' goods incur extremely high custom taxes. The importation of many articles is prohibited, especially when home production is considered to be sufficient.

Articles of art and antiques may be exported by private individuals with special permission of the Commissariat of Foreign Trade and of the Committee on Matters of Art. Such exports, however, are subject to a 100 per cent ad valorem export duty on the basis of the valuation shown in the permit.

The normal tariff has a maximum and a minimum rate. The minimum rate is applied to importations which are made according to the officially adopted plans of the government; the maximum rates are used for all other imports, especially for those

[3] According to Paul Haensel, some of the duties were as follows: 110 per cent of the retail price for suits, dresses, gloves, hats, watches, towels, razor blades, and other ready-to-wear articles; 60 per cent of the price for woolen materials, glasses, typewriters, and fountain pens; 85 per cent for shoes, blankets, underwear, etc.; 35 per cent for medicines and drugs; 160 per cent for silk and velvet materials; 110 per cent for spices; 92 per cent per pound of tea; 74 per cent per pound of cocoa; 150 per cent per pound of coffee; 7 per cent per pound of soap (only household soap is permitted). These are the main articles permitted for importation by means of parcel post. In addition, a license fee of $3.50, shipping charges, postage, inspection fee, and insurance must be prepaid by the sender. The maximum weight of the parcel is 22 pounds. A Soviet citizen may receive such articles for personal use only, and he is forbidden to sell or exchange them. (Haensel, Paul. "Public Finance of the U. S. S. R.," *The Tax Magazine,* December, 1938, p. 725).

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which are intended for private use. For some articles there is only one rate (Table 8). All custom taxes and fees go to the Federal budget.

TABLE 8—NORMAL TARIFF RATES OF THE U. S. S. R.

Item	Tariff Rate	
	Minimum	Maximum
Rice, flour, etc.	20 %	..
Rice, (kg.)[a]	..	6 r.[b]
Spices	110 %	..
Vanilla, (kg.)	..	500 r.
Coffee and cocoa	500 %	..
Coffee and cocoa in packages, (kg.)	15 r.	40&50 r.
Tea	170 %	100 r. (kg.)
Sugar, granulated	150 %	3.5 r. (kg.)
Chocolate and candy in packages, (kg.)	..	60 r.
Macaroni in packages, (kg.)	..	10 r.
Cheese in packages, (kg.)	..	20 r.
Sausage, butter, eggs, (kg.)	..	25 r.
Alcoholic drinks, beer (in bottles) (kg.)	12 r.	20 r.
Leather, kid	400 %	200 r. (kg.)
Rubber tires and inner tubes	100 %	50 r. (kg.)
Chemicals and medicines (different rates mostly)	1 %	25-200 %
Perfumes and cosmetics, (kg.)	250 r.	300 r.
Razor blades, (kg.)	150 r.	500 r.
Machinery	1 %	32 %
Physical, optical, etc. instruments and apparatus	1 %	..
Business machines	1 %	25 %
Watches	300 %	300 %
Spectacles, opera-glasses, (kg.)	100 r.	100 r.
Electrical machinery	1 %	60 %
Radio apparatus	25 %	100 %
Cotton and woolen cloth	100 %	300 r. (kg.)
Linen, dresses, from rayon, (kg.)	200 r.	500 r.
Linen, dresses, from other material, (kg.)	75 r.	300 r.
Footwear, haberdashery, (kg.)	150 r.	300 r.
Hats, (a piece)	50 r.	200 r.
Tobacco, manufactured, (kg.)	35 r.	100 r.
Automobiles	50 %	..
Bicycles	150 %	..

[a] Kilogram. [b] Ruble.

Source: Haensel, Paul, "The Public Finance of the U. S. S. R.," reprint from *Tax Magazine*, 1938, p. 30.

There are export duties for certain commodities such as furs, santonin, certain kind of boxwood, and rubber scrap. Export duties on caviar, flax, and timber have been dropped because they hampered the export of these goods.

COMMERCIAL AGREEMENTS WITH FOREIGN COUNTRIES

Possessing a powerful economic weapon in the form of the foreign-trade monopoly, Soviet Russia has been able to enter into

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commercial relations with foreign countries without fear of capitalistic commercial agreements, or even competition. The Soviet Union has made special commercial agreements with most of the countries with which it has trade relations, and most of the agreements are made on the most-favored-nation basis. The absence of a commercial treaty with a given country, however, does not signify that no commercial intercourse exists with that country.

Because of the nature of the Soviet economic system, the character of commercial treaties made with the Soviet Union by other countries is of some importance. The ownership by the Soviet State of all industrial, transportation, financial, and other organizations, which might become purchasers of imported commodities, obviously made it impossible to base trade agreements, as is usually done between countries, on mutual concessions and reductions in import duties on specified products. If ordinary concessions and reductions were made, the Russian duty would be paid by a state agency to the State Treasury and would be simply a bookkeeping transaction without significance for trade. A reduction, for example, in a Soviet duty will not increase the likelihood of a given commodity being imported in greater quantities, or even being imported at all into Soviet Russia, if its importation seems to be undesirable for the time being.[4]

Trade treaties with the U. S. S. R. have followed two patterns. The first type is one in which the foreign country grants a credit, short- or long-term, of a specified amount, Soviet Russia agreeing to purchase goods from that country to that amount. This type of agreement has been used by Germany, Great Britain, Czechoslovakia, and other countries. The second type of agreement is based on reciprocity for lowering of customs duties on Soviet export goods entering the particular country, the Soviet Union agreeing to purchase goods from that country in a certain amount, and within a certain period of time. An example of this last type is the agreement between the United States and the U. S. S. R. In this case, duty reduction granted under the Trade Agreement Act is extended to cover Soviet goods purchased by the United States in return for a Soviet pledge or promise to purchase American

[4] Ropes, *op. cit.*, p. 14.

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goods in a specified amount. (For official trade-agreement documents between the United States and the U. S. S. R., *see* Appendix D p. 129.)

Some Soviet trade agreements, occasionally, have included, also, a promise to charter tonnage under the flag of the other country, expenditures for this chartering being counted as part of the export goods which the Soviet Union had engaged to accept.[5] Soviet expenditures on railroad transportation are similarly considered. There are many other special clauses in Soviet treaties with particular countries based on special situations. For instance, the German agreement with Russia, in the Treaty of Rapallo (April 16, 1922), although strictly speaking not a commercial agreement, was severely criticized on the part of other states (those represented at the Genoa Conference of 1922) on the ground that it prejudiced future arrangements which might be arrived at between them and the Soviet government. The criticized passage in the Treaty of Rapollo is as follows: "Germany renounces claims which have arisen through the application up to the present of the laws and measures of the R.S.F.S.R. (U.S.S.R.) to German nationals or to their respective rights as well as to the rights of Germany and its constituent states against Russia or from the measures otherwise adopted by the R. S. F. S. R. or its officials against German nationals or their private rights, provided that the government of the R. S. F. S. R. does not satisfy similar claims of other States."[6]

The last clause seems to imply that the German government would be entitled to restitution if such restitutions were accorded to other states. There is no doubt that agreements of the first kind, where a country grants credits to the Soviet government, were a powerful inducement to Soviet Russia to expand its purchases from that country. Such expansions, moreover, occurred in spite of the fact that diplomatic relations between the two

[5] In the commercial agreements between the United Kingdom and the Soviet Union, the latter agreed to purchase British products and shipping services each year corresponding in value to stated percentages of the value in that year of British imports from the Soviet Union. (League of Nations, *Trade Relations between Free-Market and Controlled Economies,* Princeton University Press, Princeton, New Jersey, 1943, p. 74).

[6] Committee on Russian-American Relations, *The United States and the Soviet Union* (The American Foundation, New York, 1933), p. 63.

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countries may have been strained at the time, which was true of Germany and Russia after 1933.

CONCESSIONS

Relatively little has been published with regard to concessions granted to foreign companies and foreign capital by the Soviet government. As early as 1921, however, Lenin was willing to come to an agreement with foreign capitalists in order to induce them to invest capital in Soviet Russia. This offer was repeated from time to time, and some foreign firms became interested in the exploitation of Russian natural resources. The First Five-Year Plan recognized the necessity for closer economic ties between Soviet Russia and the outside world. A decree issued in September, 1928, permitted the investment of foreign capital in all branches of Russian industry, but without appreciable results.[7]

At the end of 1929, there were 59 foreign concessions in operation: 13 German, 11 Japanese, 6 American, 5 British, 4 Polish, 3 Swedish, 3 French, and 14 others distributed among 9 nations. As of October 1, 1928 (latest date at which figures are available), the value of output of foreign concessions was about 85.6 million rubles. This was only a fraction of 1 per cent of the total production of the state industries. The number of foreign-concession enterprises in the Soviet Union has been declining steadily. Such concessions dropped to 27 in 1931, and at present the most important existing concessions are those held by the Japanese in the fishing and mining industries in the Far East.[8] In most cases, the enterprises were bought up by the government. The Concession Committee of the Council of People's Commissars, which formerly was in charge of concessions, no longer functions.[9]

The so-called technical-aid contracts are of greater importance than are concessions. Their essential character consists of the obligation assumed by a foreign firm to put at the disposal of the economic organizations of the U.S.S.R. its technical processes

[7] Bettelheim, Charles, *La Planification Sovietique* (Marcel Rivière et Cie., Paris, 1939), p. 22.

[8] Lyubimov, N., "The Soviets and Foreign Concessions," *Foreign Affairs* (Council of Foreign Relations, Inc., New York, 1930), Vol. IX, No. 1, p. 95.

[9] On March 31, 1944, the Government of Japan and the Government of the U. S. S. R. signed an agreement on the transfer to the Soviet Union of Japanese oil and coal concessions in North Sakhalin.

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and trade secrets, to send engineers and skilled workers to Soviet Russia to act as instructors, and to admit Soviet engineers to their own workshops. This type of contract, likewise, has been declining. The greater number of these agreements, which totaled 134 in 1931, have since expired. About two-thirds of the contracts were with American and German firms, the remainder being scattered among France, Sweden, England, Italy, and other countries. Between 1928 and 1938, many individually-engaged foreign engineers, foremen, and skilled mechanics were employed in Soviet industries, chiefly in heavy industry.[10]

POLICY TOWARD TRADE WITH THE EAST

Of especial importance to Soviet Russia has been its trade with the Eastern countries, including Iran (Persia), Afghanistan, Mongolia, Manchuria, and Western and Eastern China. There is a definite distinction in the trade policies of the Soviet Government between the Eastern and Western trade, based, in general, on the difference in Soviet economic aims in the East and West. In the East, the Soviets are chiefly seeking a market for their manufactured goods, and, for a time, they tried to spread communism among the "backward people." In the West, their chief aims were to obtain long-term credits for their imports of capital equipment, to obtain political recognition, and to limit imports into Russia of Western manufactured consumers' goods. Some years ago, an article in the *Encyclopedia of Soviet Exports* analyzed these factors in some detail, and it was stated there that the economic interests of the Eastern countries and of the U. S. S. R. call for the closest economic cooperation. The point was made that these countries were engaged in a struggle with imperialistic governments and aspired to full national emancipation, hence, they did not offer any menace to the Soviet Union. Their agricultural production, moreover, because of their geographic location, had no commercial outlet except in the U. S. S. R. On the other hand, the quality and type of goods produced by Soviet industry was such as to supply the needs and tastes of near Eastern countries. The guarantee of a steady market for the raw materials

[10] *Handbook of Soviet Russia* (The American-Russian Chamber of Commerce, New York, 1936), p. 347.

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of the East was held out to insure their buying Russian industrial products.[11]

Such statements seem to imply that Russia does not see any danger to its socialistic system from the East, and, therefore, is prepared to trade with Eastern countries on a different basis from the industrialized West. The importance attached by the Soviet Government to increasing trade eastward, and especially, to exports of manufactured goods, is plain. From these countries the Soviets have been purchasing wool, cotton, and hides in growing quantities, and to them Russia has exported sugar, cotton goods, metal goods, and petroleum products. With the advancing industrialization of these countries, there has been a steady gain in the quantity and variety of metal manufactures exported, particularly in the field of agricultural machinery and automotive products. Although the total foreign trade of Soviet Russia is actually far below the levels of trade of Tsarist Russia, the values of her Eastern trade are at present much higher.

FOREIGN INDEBTEDNESSS OF THE U. S. S. R.

In the early years of its existence, the Soviet Union was unable to make purchases abroad except for cash, or with only very small short-term credits. The gradual expansion of exports and imports, however, stimulated interest abroad in the possibility of expanding trade relations with the U. S. S. R. The Soviet Government, in turn, claimed that in order to increase its imports from foreign countries, the latter should buy more from Russia, or grant sufficiently large long-term credits at low rates of interest.

In time, the credit of the Soviet Government improved to such an extent that a number of nations, particularly those with whom the Soviet Union had trade agreements, extended credits on satisfactory conditions. Germany, Italy, Great Britain, Norway, Denmark, Japan, Austria, Poland, Finland, Czechoslovakia and Latvia had various schemes of government-guaranteed export credits to the U. S. S. R. These arrangements provided for long-term credits on Soviet purchases with a government guaranty, usually covering from 60 per cent to 70 per cent of the value of

[11] Cf. Conolly, Violet, *Soviet Economic Policy in the East* (Oxford University Press, London, 1933), pp. 9-10.

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the order. By 1931, the Soviet Union owed abroad, on such goods, a total of 1,400,000,000 gold rubles (about $720 million), which declined to 450,000,000 rubles by the end of 1933. This reduction was achieved mainly by restricting imports and by maintaining exports at a high level, and by shipments of gold to the creditor nations. The debt was reduced in December, 1935, to 120,000,000 gold rubles ($61.8 million), and by April, 1938, it was practically wiped out. Since that time no foreign credits have been extended or asked, all the purchases abroad being made for cash.[12]

TABLE 9—VALUE OF TOTAL WORLD TRADE AND OF THE FOREIGN TRADE OF THE U. S. S. R., 1911-1938

(In Millions of Gold Dollars)

YEAR	WORLD TRADE		SOVIET RUSSIA		PER CENT OF WORLD TRADE	
	Imports	Exports	Imports	Exports	Imports	Exports
1911-1913 .. (average) ..	$20,485.1	$18,961.5	$636.0	$794.3	3.1	4.2
1913	21,614.1	20,102.9	707.1	782.3	3.3	3.9
1921	22,901.6	20,497.6	109.3	10.4	0.5	[a]
1922	24,188.0	22,714.0	139.2	42.0	0.6	0.2
1923	26,564.7	25,019.2	76.5	68.8	0.3	0.3
1924	29,128.8	28,060.3	222.0	268.3	0.8	1.0
1925	33,273.5	31,469.0	372.6	296.3	1.1	0.9
1926	32,164.1	29,790.1	389.5	348.5	1.2	1.2
1927	33,709.0	31,293.6	367.0	396.8	1.1	1.3
1928	34,612.5	32,533.8	486.9	400.6	1.4	1.2
1929	35,536.3	32,820.4	453.5	475.7	1.3	1.4
1930	28,792.5	26,153.7	545.3	533.7	1.9	2.0
1931	20,747.6	18,714.8	569.1	417.8	2.7	2.2
1932	13,931.5	12,614.8	362.6	296.1	2.6	2.3
1933	12,431.1	11,412.5	179.3	254.9	1.4	2.2
1934	11,938.7	11,050.4	119.7	215.4	1.0	1.9
1935	12,192.4	11,322.0	124.3	189.2	1.0	1.7
1936	13,035.2	12,182.8	159.8	160.5	1.2	1.3
1937[b] ..	16,163.8	14,989.3	158.4	204.2	1.0	1.4
1938[b] ..	14,087.5	12,984.1	168.1	157.3	1.2	1.3

[a] Less than 0.1 of one per cent.

[b] Includes trade of Burma (which has been separated from India since 1937).

Source: *Foreign Commerce Yearbook* (U. S. Department of Commerce, Washington, D. C.), Vol. II, 1926, pp. 590-93; 1928, pp. 738-41; 1931, pp. 724-27; 1932, pp. 720-23; 1933, pp. 344-47; 1935, pp. 372-75; 1939, pp. 312-15.

Note: Data for the years 1914 to 1920 inclusive are not available.
Total for the years 1911 to 1913 inclusive and from 1927 to 1938 inclusive are totals for 109 countries; those for 1921 to 1924, 103 countries; and those for 1925 and 1926, for 108 countries.

[12] Cf. Ropes, *op. cit.*, p. 15.

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Trend in World Trade of the U. S. S. R.[13]

Russia's position in world trade, 1911-1938

The share of Russian exports prior to the revolution of 1917 averaged about 4 per cent of the total world exports. After 1924, exports averaged a little over 1 per cent and reached their peak by 1932, of 2.3 per cent of total world exports. However, in 1932 the export trade of the world greatly declined as compared with the exports of 1913. The same is true of Russia's imports. Since 1934, world exports and imports have been gradually expanding, while Soviet Russia's international trade relative to total world trade has been gradually declining in importance (Table 9).

Trend in value and volume of Russia's foreign trade, 1909-1938

During the first twenty years (from 1918 to 1938, inclusive) of the operation of the Soviet foreign-trade monopoly, the total volume of trade, both imports and exports, amounted to over 80.2 billion rubles or about $16 billion. Table 10 shows the fluctuations in the value of Soviet foreign trade for the years 1918 to 1938, inclusive, with the average values for the five-year period 1909-1913, and for the year 1913. The most striking fact presented is the decline in the yearly volume and value of foreign trade of Russia after 1918 as compared with its foreign trade prior to 1914 (Tables 10 and 11). The peak of Soviet exports, valued at 4,539.3 million rubles, was reached in 1930 (Table 10) which represented only 69.7 per cent of the yearly average exports in the period 1909-1913. Since 1930, the value of exports has steadily declined. With regard to imports, the peak was reached in 1931 when goods valued at 4,839.9 million rubles were imported, which represented 96.9 per cent of the average value of imports between 1909 and 1913. These figures confirm, in part, the many statements made by Soviet authorities to the effect that they were interested in foreign trade only in so far as imports were needed, that

[13] Throughout this study Russian statistical data are used whenever possible. However, because of war-threats and deteriorating political conditions in the world, no foreign-trade figures of any kind have been released by the Russians since 1938. Therefore, for the years beginning with 1938, U. S. statistics on foreign trade are used to bring the study up to 1942, and also to complement Russian data. Russian statistics of foreign trade are expressed in terms of the new ruble which was adopted in March, 1936, for all transactions in foreign trade. The ruble, officially, is equal to about 20 United States cents, but its value in recent years has had no relation to its internal purchasing power.

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is, imports of certain commodities which Soviet Russia temporarily was unable to produce, or to produce in sufficient quantities.

Data in Table 10 for the individual years after 1918 tend to reflect the economic conditions prevailing in Russia, especially the gradual restoration of its economy. As mentioned previously, the balance of trade of Russia prior to 1914 was usually active,

TABLE 10—VALUE OF FOREIGN TRADE OF THE U. S. S. R., 1909-1938[a]
(In Millions of Rubles: Value of Ruble about 20 Cents)

Year	Exports	Imports	Total	Balance
1909-1913 (average)	6,513.9	4,994.1	11,508.0	+1,519.8
1913	6,596.4	6,022.5	12,618.9	+ 573.9
1918	35.5	460.8	496.3	— 425.3
1919	0.4	14.0	14.4	— 13.6
1920	6.1	125.7	131.8	— 119.6
1921	88.5	922.9	1,011.4	— 834.4
1922	357.4	1,181.7	1,539.1	— 824.3
1923	954.8	627.2	1,582.0	+ 327.6
1924	1,476.1	1,138.8	2,614.9	+ 337.3
1925	2,664.4	3,620.9	6,285.3	— 956.5
1926	3,173.7	3,016.5	6,190.2	+ 157.2
1927	3,267.0	3,320.5	6,587.5	— 53.5
1928	3,518.9	4,174.6	7,693.5	— 655.7
1929	4,045.8	3,857.0	7,902.8	+ 188.8
1930	4,539.3	4,637.5	9,176.8	— 98.2
1931	3,553.1	4,839.9	8,393.0	—1,286.8
1932	2,518.2	3,083.5	5,601.7	— 565.3
1933	2,167.5	1,525.1	3,692.6	+ 642.4
1934	1,832.4	1,018.0	2,850.4	+ 814.4
1935	1,609.3	1,057.2	2,666.5	+ 552.1
1936	1,359.1	1,352.5	2,711.6	+ 6.6
1937	1,728.6	1,341.3	3,069.9	+ 387.3
1938	1,331.9	1,422.9	2,754.8	— 91.0

[a] The 1918-1924 values are expressed in terms of 1913 prices; the 1925-1938 values are expressed in current prices. Money values in all the years were multiplied by the coefficient 4.38 (the new value of the ruble established in 1936 to settle international accounts). However, only the values from 1924 are completely comparable, since in earlier years both the territory and the methods of computation were different.

Source: Bakulin, S. N., and Mishustin, D. D., *Vneshnaya Torogovlya, S.S.S.R. za 20 Let, 1918-1937 (Foreign Trade of the U. S. S. R. for Twenty Years, 1918-1937), Mezhdunarodnaya Kniga (International Book), Moscow, 1939, p. 10; Cf. Yugow, op. cit.*, p. 99.

that is, Russia had an excess of exports over imports, but after 1918 it was active only in 1923, 1924, 1926, 1929, and from 1933 to 1938. In all of the other years between 1914 and 1939 it was passive, that is, imports exceeded exports. During World War I, Russia's foreign trade fell to a very low level. From 1918 to 1923, Soviet Russia was unable to export large quantities of commodities because of the economic chaos which prevailed after 1918 due to

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the civil war and famine which gripped the country in 1921 and 1922. At the same time, the Soviet Government began importing food products from abroad to relieve the starving population; these imports were paid for from the depleted gold reserves of the State, precious metals, and nationalized objects of art. As a result, large import balances developed, and it was not until 1923 that Russian exports exceeded imports.

With a gradual restoration of the economic life in the country,

TABLE 11—VOLUME OF FOREIGN TRADE OF THE U. S. S. R., 1909-1938
(In Thousands of Tons)

Year	Exports	Imports	Total
1909-1913 (average)	24,590.8	11,240.7	35,831.5
1913	24,112.8	15,342.8	39,455.6
1918	29.9	188.9	218.8
1919	0.9	8.5	9.4
1920	11.1	85.3	96.4
1921 (Jan.-Sept.)	91.4	575.2	666.6
1921-1922	726.7	1,989.1	2,715.8
1922-1923	2,160.8	907.6	3,068.3
1923-1924	6,736.9	979.2	7,716.1
1924-1925	6,169.0	1,863.7	8,032.7
1925-1926	7,855.8	1,547.3	9,403.1
1926-1927	9,573.0	1,846.5	11,419.5
1927-1928	8,873.7	2,014.3	10,888.0
1928 (Oct.-Dec.)	2,861.3	405.1	3,266.4
1929	14,145.0	1,936.7	16,081.7
1930	21,486.4	2,855.9	24,342.3
1931	21,778.9	3,564.4	25,343.3
1932	17,967.9	2,322.1	20,290.0
1933	17,916.3	1,236.1	19,152.4
1934	17,340.2	1,025.2	18,365.4
1935	17,190.4	1,259.1	18,449.5
1936	14,204.0	1,155.3	15,359.3
1937	12,969.4	1,285.8	14,255.2
1938	9,682.3	1,127.2	10,809.5

Souce: Bakulin and Mishustin, *op. cit.*, p. 10. Cf. Yugow, *op. cit.*, p. 99.

particularly with regard to food products, exports of large quantities of foodstuffs and raw materials were resumed, indicating a fair degree of success of the government in mobilizing supplies of products marketable abroad. However, it never succeeded in bringing these exports to the pre-1914 level. The revolution liquidated the large land owners who before the revolution contributed greatly to the exports of agricultural commodities from their surpluses. The disappearance of large agricultural estates left in

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the country only small producers, who raised, in most cases, only as much as they needed for their own consumption. Consequently, the Soviet government was unable to purchase from peasants enough agricultural products to supply the cities, and to leave large surpluses for exports.

From 1923 to 1928, foreign trade was in an approximate balance between exports and imports. In 1928, however, with the introduction of the First Five-Year Plan, which had as its chief goal the development and industrialization of the country, and which called first for the establishment in Russia of producers' goods industries, large imports from abroad of capital equipment were necessary. Beginning with 1928, therefore, the export balance of trade was replaced by an import balance, lasting, with the exception of 1929, through 1932, and rising to a high of 1,286,800,000 rubles in 1931. It is important to bear in mind that during this period Russia did its best to increase its exports and, as shown in Table 11, the volume of its exports increased from 14,145,000 tons in 1929 to 21,486,400 tons in 1930, to 21,778,000 tons in 1931, and then declined to 17,967,900 tons in 1932. However, for the same years, respectively, the value of its exports rose from 4,045.8 million rubles in 1929, to 4,539.3 million rubles, declined to 3,553.1 million rubles, and finally dropped to 2,518.2 million rubles. This was due chiefly to the fact that the value of the raw materials and foodstuffs exported by the Soviet Union followed the general declining trend of world prices, while the prices paid by the Russians for the equipment and materials imported, and the bulk of these imports consisted of capital goods, declined relatively very little. It was during this period that the problem of Soviet dumping and forced labor allegedly used in the production of Russian goods, stirred up the Western world and led to a discrimination against Russian exports.

From 1932 on, Soviet Russia drastically reduced its imports from 3,083,500,000 rubles in 1932 to 1,525,100,000 rubles in 1933; imports continued to drop until 1936, after which time they picked up and reached 1,422,900,000 rubles in 1938, the last year of record. Simultaneously, it was possible to reduce exports in order to leave a larger proportion of output for consumption

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within the country.[14] Exports fell from a high of 4,539,300,000 rubles in 1930 to a low of 1,331,900,000 rubles in 1938. The export balances accumulated between 1933 to 1937 enabled the Russians to pay for all imports, and reduce the large indebtedness accumulated abroad during the years of heavy imports. This record shows the success of the foreign-trade monopoly in coping with the problem of trade balances, and of planning in the field of foreign trade.

DISTRIBUTION OF FOREIGN TRADE BETWEEN CAPITAL GOODS AND CONSUMERS' GOODS

The bulk of imports into present-day Russia, like that of old Russia, consisted largely of capital goods (Table 12). The per-

TABLE 12—VALUE AND PERCENTAGE DISTRIBUTION BETWEEN CAPITAL-GOODS AND CONSUMERS'-GOODS IMPORTS OF THE U. S. S. R., 1909-1937

YEAR	VALUE OF IMPORTS OF: *(In Millions of Rubles)*			PER CENT OF TOTAL IMPORTS	
	Capital Goods	Consumers' Goods	Total Imports	Capital Goods	Consumers' Goods
1909-1913 (average)	3,606.9	1,335.1	4,994.1	72.2	26.7
1913	4,215.7	1,806.8	5,022.5	70.0	30.0
1920	49.9	75.8	125.7	39.7	60.3
1921 (Jan.-Sept.)	230.0	462.5	692.5	33.2	66.8
1921-1922	540.9	646.5	1,187.4	45.6	54.4
1922-1923	495.8	155.1	650.9	76.2	23.8
1923-1924	846.6	166.5	1,022.7	82.7	16.3
1924-1925	2,169.0	976.9	3,168.5	68.5	30.8
1925-1926	2,735.3	539.2	3,312.6	82.6	16.2
1926-1927	2,798.4	289.5	3,125.6	89.5	9.3
1927-1928	3,578.9	516.4	4,141.3	86.4	12.5
1928 (Oct.-Dec.)	791.0	81.1	890.5	88.8	9.1
1929	3,407.6	394.2	3,857.0	88.4	10.2
1930	4,083.5	455.0	4,637.5	88.1	9.8
1931	4,503.1	222.5	4,839.9	93.0	4.6
1932	2,752.4	250.5	3,083.5	89.3	8.1
1933	1,385.8	79.7	1,525.1	90.9	5.2
1934	860.8	157.2	1,018.0	84.6	15.4
1935	920.6	136.6	1,057.2	87.1	12.9
1936	1,210.0	142.5	1,352.5	89.5	10.5
1937	1,219.8	121.5	1,341.3	90.9	9.1

Note: For the years 1924-25 through 1933, the per cents for capital goods and consumers' goods do not quite total 100 per cent. No explanation is given for this by the authors.

Source: Bakulin and Mishustin, *op. cit.*, p. 16.

[14] As a leading Russian economist stated "as the volume of imports began to decline, the necessity of forcing our exports disappeared." (Ginzburg, T. S., *Vneshnaya Torgovlya S.S.S.R.*, Gosudarstvennoe Sotzialno-Ekonomicheskoe Izdatelstvo, Moscow, 1937, p. 11.)

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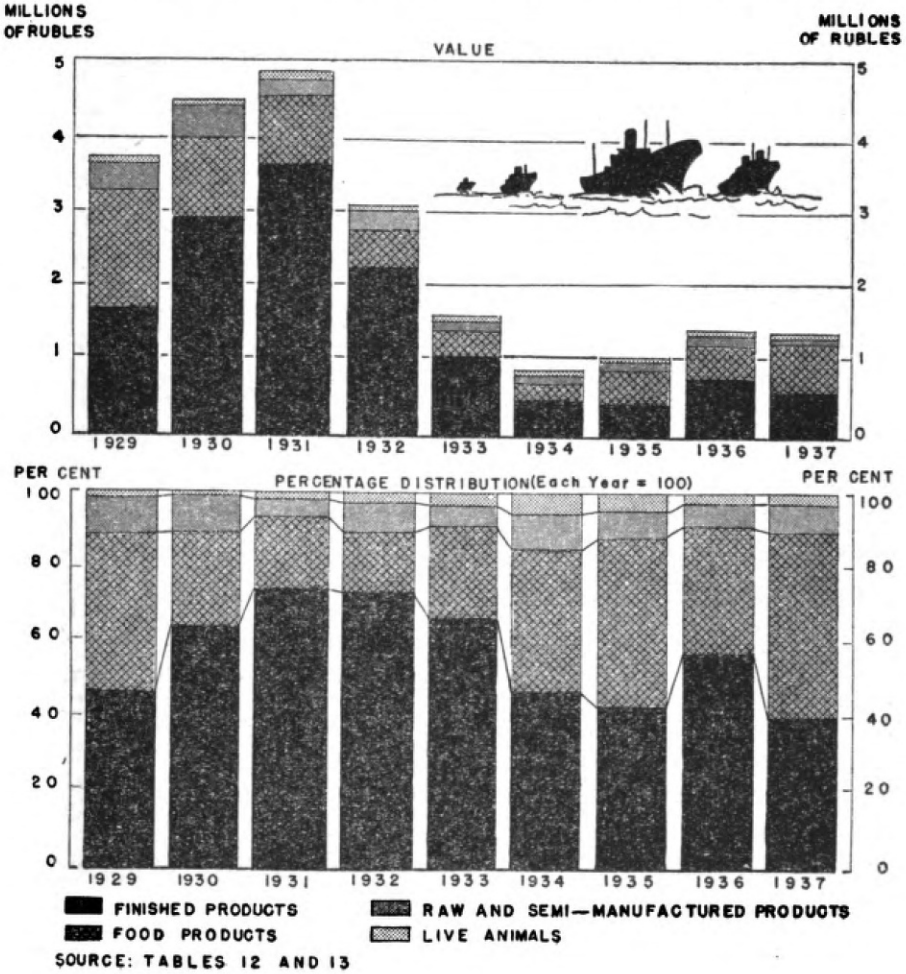
centage of capital-goods imports to total imports fluctuated from 72.2 per cent of the 1909-1913 yearly average to 93.0 per cent of the total in 1931, the critical year of the First Five-Year Plan. It is true that the proportion of capital-goods imports fell to 33.2 per cent in 1921, but this was a year of turmoil and famine in Russia; from then on, the imports of capital goods steadily began to increase, and remained, with little fluctuation, around 86 per cent of total imports. The imports of consumers' goods, which averaged 26.7 per cent of total imports in the 1909-1913 period, rose to 66.8 per cent in 1921 (at that time imports consisted mainly

CHART 3

VALUE AND PERCENTAGE DISTRIBUTION OF TOTAL IMPORTS OF THE U. S. S. R., 1929 – 1937



SOURCE: TABLES 12 AND 13

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of foodstuffs), because of famine conditions prevailing in Russia at that time, but from then on imports of consumers' goods declined and reached their lowest proportion in 1931, when the imports of consumers' goods represented only 4.6 per cent of the total output. After 1931, imports of consumers' goods began to pick up a little, amounting to 15.4 per cent of the total imports in 1934, but again declined to 9.1 per cent in 1937.

TYPES OF COMMODITIES IMPORTED AND EXPORTED

Imports — Table 13 and Chart 3 show a breakdown of imports, by type of commodity, for the years 1929-1937. Russian imports of live animals never exceeded 4.7 per cent of the total imports, and, generally, fluctuated around 2.5 per cent. Imports of food products and drinks, fluctuated between 8.4 per cent of total imports in 1929 and 6.4 per cent in 1937. For raw and semi-manufactured goods, the relative share of imports is much greater, amounting to 43.6 per cent of the total in 1929 and reaching a peak of 49.9 per cent in 1937. The relative share of this type of imports declined to 16.5 per cent in 1932. The imports of finished products varied from 46.6 per cent in 1929 to 40.3 per cent in 1937. The peak of the imports of finished products was reached in 1931 when they amounted to 74.2 per cent. From that year on, the proportion of finished products imported gradually declined.

Exports — With regard to the types of commodities exported (Table 14), the exports of present-day Russia are quite different from those of Tsarist Russia. Prior to 1914, as mentioned previously, over 70 per cent of the goods exported consisted of agricultural products, while only 29 per cent consisted of industrial products. Until the period of 1926-27, over one-half of the goods exported consisted of agricultural products, but after 1927 the relative value of agricultural exports declined, reaching its lowest point of 20.3 per cent in 1936. Conversely, the value of industrial products exported has been consistently rising, and reached a peak of 79.7 per cent in 1936.

This brief analysis of the foreign trade of the Soviet Union through 1937 clearly shows that Russia was able to export much larger quantities of industrial products, largely because of a

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TABLE 13—VALUE AND PERCENTAGE DISTRIBUTION OF TOTAL IMPORTS OF THE U.S.S.R., BY TYPE OF COMMODITY, 1929-1937[a]

YEAR	VALUE OF COMMODITY *(In Millions of Dollars)*					PER CENT OF TOTAL IMPORTS				
	Live Animals	Food Products and Drinks	Raw and Semi-Mfd. Products	Finished Products	Total Imports	Live Animals	Food Products and Drinks	Raw and Semi-Mfd. Products	Finished Products	Total Imports
1929	55.4	322.4	1,681.9	1,797.3	3,857.0	1.4	8.4	43.6	46.6	100.0
1930	99.1	414.3	1,171.7	2,952.4	4,637.5	2.1	8.9	25.3	63.7	100.0
1931	114.9	204.8	930.3	3,589.9	4,839.9	2.4	4.2	19.2	74.2	100.0
1932	81.2	232.2	507.3	2,262.8	3,083.5	2.6	7.5	16.5	73.4	100.0
1933	59.5	69.4	388.6	1,007.6	1,525.1	3.9	4.6	25.5	66.0	100.0
1934	47.6	95.3	396.2	478.9	1,018.0	4.7	9.4	38.9	47.0	100.0
1935	41.1	92.3	464.1	459.7	1,057.2	3.9	8.7	43.9	43.5	100.0
1936	54.9	88.2	472.6	736.8	1,352.5	4.1	6.5	34.9	54.5	100.0
1937	46.1	85.9	669.0	540.3	1,341.3	3.4	6.4	49.9	40.3	100.0

[a] Tabulated according to the Brussel's Convention.
Source: Bakulin and Mishustin, *op. cit.*, p. 17.

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greater industrialization of the country. In addition, the foodstuffs formerly exported were now considered by the Soviet authorities essential for the needs of the rapidly growing working population of Soviet Russia. It is also possible that the Soviet authorities, foreseeing a war with Germany on one side and Japan on the other, in the near future, deliberately limited the exports

TABLE 14—VALUE AND PERCENTAGE DISTRIBUTION OF TOTAL EXPORTS OF THE U. S. S. R., 1909-1937

YEAR	VALUE OF EXPORTS (*In Millions of Rubles*)			PER CENT OF TOTAL EXPORTS	
	Agricultural Products	Industrial Products	Total Exports	Agricultural Products	Industrial Products
1909-1913 (average)	4,601.8	1,912.1	6,513.9	70.6	29.4
1913	4,465.3	2,131.1	6,596.4	67.7	32.3
1918	21.2	14.3	35.5	59.7	40.3
1919	0.4	[a]	0.4	89.0	11.0
1920	3.4	2.7	6.1	55.7	44.3
1921 (Jan.-Sept.)	31.8	11.8	43.6	72.9	27.1
1921-1922	138.5	139.4	277.9	49.8	50.2
1922-1923	361.6	221.8	583.4	62.0	38.0
1923-1924	1,022.8	603.3	1,626.1	62.9	37.1
1924-1925	1,366.1	1,081.2	2,447.3	55.8	44.2
1925-1926	1,773.0	1,190.6	2,963.6	59.8	40.2
1926-1927	1,955.2	1,462.2	3,417.4	57.2	42.8
1927-1928	1,576.4	1,847.7	3,424.1	46.0	54.0
1928 (Oct.-Dec.)	391.2	557.1	948.3	41.2	58.8
1929	1,572.1	2,473.7	4,045.8	38.8	61.2
1930	1,899.0	2,640.3	4,539.3	41.8	58.2
1931	1,499.1	2,054.0	3,553.1	42.1	57.9
1932	803.4	1,714.8	2,518.2	31.9	68.1
1933	623.9	1,543.6	2,167.5	28.8	71.2
1934	521.3	1,311.1	1,832.4	28.4	71.6
1935	429.9	1,179.4	1,609.3	26.7	73.3
1936	275.4	1,083.7	1,359.1	20.3	79.7
1937	547.6	1,181.0	1,728.6	31.7	68.3

[a] 44 thousand rubles.
Source: Bakulin and Mishustin, *op. cit.*, p. 13.

TABLE 15—PERCENTAGE DISTRIBUTION OF EXPORTS OF THE U. S. S. R. BETWEEN RAW MATERIALS AND MANUFACTURED AND SEMI-MANUFACTURED PRODUCTS, 1913-1936

	1913	1930	1931	1932	1933	1934	1935	1936
All Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Semi-Manufactured and Manufactured	27.6	50.6	55.4	65.8	67.0	67.0	60.8	65.7
Crude	72.4	49.4	44.6	34.2	33.0	33.0	39.2	34.3

Source: Ropes, *op cit.*, p. 16.

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of food products, particularly grains, in order to accumulate a large reserve of foods that could be used in case of a war on two fronts when Russia would be cut off from every contact with the Western world—the thing that actually happened during the first World War, and which greatly contributed to her collapse.

DISTRIBUTION OF EXPORTS BETWEEN RAW MATERIALS AND MANUFACTURED GOODS

It is interesting to note also that the proportion of finished commodities exported has been gradually expanding, while that of crude materials has been declining. Increased amounts of vegetable oil, butter, eggs, fish, and canned goods are now available for domestic consumption instead of export. Primary products which are still exported such as furs, flax, and wood products, are sold chiefly in manufactured form. The export of petroleum products has been greatly reduced because of the tremendous domestic demand, accounted for chiefly by the mechanization of industry and agriculture (Table 15).

TABLE 16—EXPORTS OF GRAIN FROM THE U. S. S. R., BY FIVE-YEAR PERIODS, 1909-1937

(In Thousands of Metric Tons)

Item	1909-1913	1923/24-1927/28	1929-1932	1933-1937
Wheat	4,239	554	1,395	516
Rye	655	416	544	122
Barley	3,718	326	682	333
Oats	1,088	54	191	88
Corn	763	145	118	52
Total	10,463	1,495	2,930	1,111

Source: Ropes, *op. cit.*, p. 17.

Probably the most significant change occurred in the exports of grains which represented the bulk of pre-Soviet exports. Table 16 shows exports in thousands of metric tons, by 5-year periods from 1909 to 1937, inclusive. The decline in grain exports, particularly of wheat, barley, and oats has been substantial. The average yearly wheat exports dropped to 32.9 per cent of total grain exports in the 1929-32 period, and to 12.2 per cent in 1933-37 as compared with the average yearly exports in the 1909-1913

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period (Table 17). With regard to barley, average yearly exports declined to 18.3 per cent and to 9.0 per cent, respectively, for the same period of time. Exports of oats for the same period declined to 17.6 per cent and to 8.1 per cent of the average yearly exports of 1909-1913. It may be pointed out that the years 1929-1932 were the period of the First Five-Year Plan and of the great depression, when the planned industrialization of the Soviet Union was en-

TABLE 17—INDEX OF GRAIN EXPORTS FROM THE U. S. S. R., BY FIVE-YEAR PERIODS, 1909-1937

(1909-1913 = 100)

Item	1909-1913	1923/24-1927/28	1929-1932	1933-1937
Wheat	100.0	13.1	32.9	12.2
Rye	100.0	63.5	83.1	18.6
Barley	100.0	8.8	18.3	9.0
Oats	100.0	5.0	17.6	8.1
Corn	100.0	19.0	15.5	6.8
Average	100.0	14.3	28.0	10.6

Source: Table 16.

dangered by falling prices of raw products in world markets and as a result of which the Soviet Union increased the volume of its exports. This drastic decline in prices was attributed by many people to the trade policies of the Soviet government, namely of dumping its goods in foreign markets and of its desire to wreck the economies of the capitalist countries.[15]

[15] Little is known on the present status of the problem of goods in transit, which has always been extremely important for Russia because of her location midway between Europe and Asia. The transit policy of the Soviet Union has been specifically dealt with in various treaties between Soviet Russia and her neighbors, such as Germany, Poland, Iran, Turkey, China, etc. The Soviet attitude on this problem was summed up in a decree of STO (Council of Labor and Defense) which was published in 1928. According to this decree, Soviet Russia reserves free transit through the Union to goods from those countries which have concluded a commercial treaty with her and with which the question of transit traffic has been definitely arranged.

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CHAPTER V

POLITICAL AND ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND RUSSIA

Trade Relations at the Beginning of World War I

With the outbreak of the War in 1914, Russia, like France and Great Britain, turned to American finance and industry to supply her war needs. A number of bond issues were offered and sold between 1915 and 1916. At the time of the revolution in 1917, American investors held about $86 million worth of Russian government war bonds. With the entrance of the United States into the war and under the terms of the war loan acts, the American government by October, 1917, had opened credits to Russia amounting to $325 million, of which $187.7 million were advanced in cash.[1]

This financial aid was extended to Russia although treaty relations between the United States and Russia had ceased early in 1913. The commercial treaty negotiated and ratified in 1832[2] between the United States and Russia had remained in force for about eighty years, and friendly relations were almost uninterrupted until the end of the century. The treaty was similar to the usual type of commercial treaty concluded by the United States during this period, and was formulated on a most-favored-nation basis. Between 1868 and 1913, nine Russian-American treaties or conventions were concluded; five of the agreements dealt with commerical problems. By the end of the nineteenth century, however, a number of disputes arose between the two countries because of discrimination against Jews by the Russian government, and against Jewish citizens of the United States desiring to visit Russia. Early in 1911, several resolutions were introduced in

[1] Cf. Schuman, Frederick Lewis, *American Policy Toward Russia Since 1917* (International Publishers, New York, 1928), p. 47.

[2] *See* Appendix C, page 121 for text of the 1832 commercial treaty, and page 117 for historical review of early trade relations.

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Congress calling upon the President to denounce the treaty of 1832 on the ground that Russia had violated it by discriminating against one category of American citizens. By the end of 1911, President Taft abrogated the treaty, and the Russian government was informed that in accordance with Article XII of the treaty it should cease to be operative after January, 1913. The outbreak of the first World War in 1914 prevented the signing of a new commercial agreement.

Trade Relations with the Soviet Government

PRE-RECOGNITION PERIOD

With the overthrow of the Provisional government by the Bolsheviks in November, 1917, all unlicensed trade with Russia was stopped by the Department of State of the United States, and, after February, 1918, licenses were no longer granted without permission from the State Department. A year later, the State Department stopped entirely the issuance of export licenses. During 1920, a number of businessmen and senators urged the administration in Washington to modify its policy of nonrecognition of the Soviet government and to open trade relations. The Soviet government, also, made unsuccessful attempts to enter into diplomatic relations with the United States through Ludwig C. A. K. Martens, a resident of New York. In March, 1919, Martens sent to the State Department his credentials certifying that he was appointed the representative of the People's Commissariat of Foreign Affairs in the United States, and a memorandum which included a request for a speedy reopening of commercial relations for the mutual benefit of Russia and the United States, but the State Department ignored these communications. In the meantime, Martens attempted to open direct negotiations with different American business establishments. In April, 1919, the State Department warned American businessmen that any concessions granted by the Bolshevist authorities probably would not be recognized as binding to any future Russian governments.[3] Finally, the activities of Martens and of different radical elements in the country raised so many protests that Martens was threatened with

[3] Cf. Schuman, *op. cit.*, p. 187.

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deportation and was forced to leave New York for Russia. In the meantime, the question of Russian trade aroused increasing interest on the part of the public, but all rules and regulations restricting the exportation of coin, bullion and currency, and restricting transfers of credit or exchange transactions, were not suspended until the end of 1920.

The Soviet monopoly of foreign trade, however, compelled American businessmen to deal directly with the Soviet government, and they sought assurances from the State Department of the safety of such transactions; they were informed as follows: "We have not considered that Government safe enough for us to extend recognition to it, but if you wish to trade with them we have no objection whatever."[4]

With the inauguration of President Harding in 1921, the Soviet government made a new bid for the reopening of trade and diplomatic relations between the two nations. But Secretary of State Hughes turned this appeal down, stating that "it is only in the productivity of Russia that there is any hope for the Russian people and it is idle to expect resumption of trade until the economic bases of production are securely established. Production is conditioned upon the safety of life, the recognition of firm guarantees of private property, and the security of contracts and the right of free labor."[5]

In the summer of 1921, the south and southeast of Russia were affected by drought, resulting in a disastrous crop failure and terrible starvation. The Soviets appealed for help to the American government and to Herbert Hoover, as director of the American Relief Administration. Although there was some opposition, Congress appropriated about $20 million for supplies, and released a considerable quantity of surplus foodstuffs held by the War Department. An additional $26 million was raised through private contributions and the Red Cross. In all, about 700,000 metric tons of food were shipped to Russia and distributed among the Russian people by an American staff.[6] By the end of

[4] Cf. *Ibid.*, p. 196.

[5] Cf. Fischer, Louis, *The Soviets in World Affairs* (Jonathan Cape and Harrison Smith, New York, 1930), Vol. I, p. 314.

[6] Cf. Dulles, Foster Rhea, *The Road to Teheran* (Princeton University Press, Princeton, N. J., 1944), p. 173.

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1921, an agreement was signed between a representative of the American Relief Administration and Soviet representatives calling for an expenditure by the Soviet government of $10 million in gold in the United States for the purchase of foodstuffs. This gold was received in New York and deposited to the account of the American Relief Administration, with no question of its title being raised. Prior to that agreement the government of the United States imposed an embargo on imports of Russian gold because of its nonrecognition of the Soviet Government, consequently, Russian gold was not accepted by the Federal Reserve Banks or the Mint.

The United States did not take part in the Conferences at Genoa and The Hague at which the Allied Governments tried to discover a basis for general European reorganization in cooperation with both Germany and Russia. But, in August, 1922, the State Department announced that Ambassador Houghton at Berlin had approached the Soviet Government with a request for permission to send an American technical commission to Russia to study Russia's economic situation. The Soviet government agreed to this proposal, but on the condition that the projects must be reciprocal. However, the State Department declined to agree to these terms.[7]

When Calvin Coolidge became President in 1923, the internal economic conditions of Russia were gradually improving. The Soviet Government adopted a less intransigent attitude towards capitalism; the New Economic Policy was putting Russia back on its feet. Referring to these conditions, President Coolidge noted "encouraging evidence of Russia's returning to the ancient ways of society." The favor of the United States was not for sale, he declared, but he was willing to make concessions in the interests of close collaboration between the two governments for the purpose of rescuing the Russian people.

Three conditions were suggested as essential requisites for any change in our policy: (1) compensation for American citizens who had been deprived of their property through confiscation; (2) recognition of the debts of the Kerensky government; (3)

[7] Cf. Friedman, Elisha M., *Russia In Transition: A Businessman's Appraisal* (The Viking Press, New York, 1932), p. 553.

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abatement of the active spirit of enmity to American institutions. Whenever there was real evidence of these conditions having been met, Coolidge concluded, our country ought to be the first to go to the economic and moral rescue of Russia.[8]

The Soviet Government immediately declared its willingness to enter into negotiations with the United States, but Secretary Hughes declared that if the Soviet Government wished to take steps outlined by President Coolidge it could do so without entering into any conference with the United States.[9] Thus, the policies of the United States toward Soviet Russia remained unchanged. Although the United States and Russia remained officially separated, the world-wide contacts of both powers made it impossible for either to ignore the existence of the other. The two nations frequently came into contact in various meetings sponsored by the League of Nations. Russia also signed the Briand-Kellogg Pact for outlawing war which was negotiated in 1928 under the sponsorship of the United States. Trade between the two countries continued to expand in spite of nonrecognition. These developments were accompanied by a constantly growing interest in Russian commercial possibilities on the part of American industrialists and traders.

A number of special organizations were being established to promote commercial intercourse between the two countries. Early in 1924, the Amtorg Trading Corporation was organized under the laws of the State of New York as a consolidation of two previously existing corporations, the Products Exchange Corporation and Arcos America, Inc. The Amtorg Trading Corporation purchases the bulk of the products exported from the United States to the Soviet Union, sells the greater part of the goods imported into the United States from Soviet Russia, and arranges for the technical assistance by American firms or individual technicians in Soviet industries. It is the sole representative in the United States of most of the industrial and trading organizations of the U. S. S. R. There have been, also, many special buying commissions sent by various branches of Soviet industry and agri-

[8] Cf. Dulles, *op. cit.*, p. 174.
[9] Cf. *Ibid.*, p. 175.

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culture which have purchased independently of Amtorg. The American-Russian Chamber of Commerce established in New York in the early twenties, is actively engaged in promoting trade between the two nations by maintaining an information bureau in New York which publishes pamphlets and bulletins, answers inquiries and arranges meetings.

Two factors have helped to expand American-Russian intercourse, namely, the participation of Americans in foreign concessions granted by Soviet authorities under the New Economic policy, and, particularly, the extensive help by American experts in the industrialization of Russia.[10]

The whole problem of expanding trade relations revolved about the problem of credits. The situation with regard to credit facilities for American-Russian commerce was that short-term credits, running for one year or eighteen months, were obtainable by the Soviet trade agencies in New York, but long-term credits were practically unavailable. The State Department discouraged and disapproved the extension of long-term loans not only to organizations engaged in trade with Russia, but also to American financiers who loaned money to bankers and to merchants of third countries in order to facilitate their trade with Soviet Russia.

Another obstacle to commerce between the two countries

[10] Cf. Schuman, *op. cit.*, p. 253.

The following is a list of the chief concessions granted to American industry and firms, and operating in 1927, although, as mentioned above, most of these concessions lapsed or were bought by the Soviet Government.

1. Manganese concession, Georgian Manganese Co. (W. A. Harriman and Co.). Right to prospect, exploit, and export manganese for twenty years. Granted June, 1925.
2. Placer gold mining concession, on the Semertak River, Siberia. Granted to Mr. Vint for 20 years.
3. Asbestos concession, American Asbestos Co. Granted in 1921 for 20 years.
4. Agricultural concession, for farming in the Northern Caucasus. Granted in 1925 for 15 years.
5. Manufacture of pencils, pens and similar articles, Hammer Co. Granted in 1925 for 10 years.
6. Concession for manufacture of oxygen, acetylene and other gases, Russian-American Compressed Gas Co. Granted December, 1926, for 15 years.
7. Prospecting concession granted to New York Corporation, Beloukha. Rights to send an expedition to the Southern Altai Mountains to explore for minerals. Granted June, 1927, for two years.
8. Technical assistance in the iron and steel industry, Freyn Engineering Co., May, 1927.
9. Technical assistance in the coal industry, Stuart, James and Cooke. June, 1927.
10. Technical assistance, Dnieprostroy construction, Hugh L. Cooper Co.
11. Technical assistance in the coal industry, Allen and Garcia Co.

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was the attitude of the Treasury Department toward gold of Soviet origin. The embargo imposed in 1920 on this gold was not lifted at the time when other restrictions on trade with Russia were removed. Under the 1920 regulation of the Treasury Department, the Assay Office required an affidavit from every one presenting gold of suspicious origin that it was not of "Bolshevist origin," and had never been in the possession of the so-called "Bolshevist Government of Russia."[11] As a result, imports of gold from Russia were prohibited, although $12 million in gold was sent by the Soviet Government to the United States in 1922 as a partial payment for famine relief supplies and was accepted without question.

Early in 1928, the State bank (Gosbank) of Russia shipped directly to the United States $5,210,000 in gold upon the repeated assurances of the State Department that no legal obstacles to American-Russian trade existed. This gold was sent from Hamburg and consigned to the Chase National Bank and the Equitable Trust Company of New York, and reached New York in February, 1928. In the meantime, the Ambassador of France in Washington announced that the Bank of France would assert its right to the Soviet gold by judicial action, and the Treasury Department announced that the Assay Office would refuse this gold since the consigners declined to present it as owners and to guarantee title to it. The incident was closed by release of the gold by the two banks and its reshipment to Germany.[12] Despite all this trouble, contacts between the United States and Soviet Russia were expanding steadily, and large numbers of engineers, technicians, and industrial experts from America were going to Russia under contract with the Soviet Government. By 1927, the State Department modified its credit restrictions and declared that, although it still disapproved of the sale of Russian securities in the United States, it would not object to long-term credit advances to agencies of the Soviet Government. In 1928, the Department approved a long-term contract between the International General Electric Company and the Soviet Government

[11] Cf. *Ibid.*, p. 257.
[12] Committee on Russian-American Relations, *op. cit.*, p. 87.

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which involved the settlement of the company's claims for confiscated property, and provision for Russian purchase of electrical equipment in the amount of about $26 million.[13]

Another interesting aspect of American-Russian commercial relations was the role of American oil interests in the struggle between the former owners of Russian oil resources and the Soviet Government. In 1923, the Royal Dutch Shell, Standard Oil, Anglo-Persian, the Franco-Belgian Syndicate and other companies formed the "Groupement International des Sociétés Naphtières en Russie" in order to protect their claims to the properties confiscated by the Soviets. Each agreed not to acquire concessions in Russia at the expense of the claims of the others. The Soviet Government, therefore, began to develop these confiscated properties itself and was soon exporting large quantities of oil. The Royal Dutch Shell began purchasing Soviet oil in 1923. The Standard Oil followed suit, and the Groupement collapsed. In 1924, Soviet oil began to compete with oil of the Royal Dutch Shell in England itself. Meanwhile, the Standard Oil Company of New York and the Vacuum Oil Company concluded a series of contracts with the Soviet Naphtha Syndicate for the purchase and sale of Soviet oil products in the Mediterranean and Near East markets.

With the introduction of the five-year plans, American technical assistance to help in the industrialization of the country assumed major proportions. A long list of American companies could be added to the list of those helping the Soviet Union. In 1929, the Ford Company entered into a special deal whereby it undertook to aid in the establishment of a Russian automobile industry, while, in return, the Soviets agreed to purchase automobiles, trucks and tractors to a total value of $30 million over a four-year period.[14]

In spite of a steady expansion in American-Russian trade prior to recognition of the Soviet Government by the United States, there were serious obstacles affecting trade relations of the two nations; namely, the lack of diplomatic relations between them, the absence of long-term credit facilities for the Soviets in the

[13] Cf. Fischer, *op. cit.*, Vol. 2, p. 766.
[14] Cf. *Ibid.*, p. 811.

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United States, and the suspicion of dumping in the United States and world markets between 1930 and 1933, of Russian commodities which were allegedly produced by forced labor. These charges were never substantiated, but the United States Treasury placed an embargo on certain Soviet exports such as lumber and pulpwood, matches and apatite. The sale of many commodities was interrupted for months while investigations were being carried on, and Congress was urged to apply additional restrictions on the sale of Soviet goods to safeguard American producers. Among the more important products so affected were asbestos and manganese. It is interesting to note that the United States does not produce either asbestos or manganese in sufficient quantity to satisfy its domestic consumption. Finally, imports of Soviet anthracite coal were subjected to a special tax under the Revenue Act of 1932 as being imported from a country which sold more coal to the United States than it bought here.[15]

Because of the unwillingness of the United States Government to permit the floating of Soviet securities on the American market, or to permit the issuance of loans secured by Soviet property, such as Russian railroads, the only favorable terms that the Soviets could get was in their dealings with large American corporations. Finally, two small Soviet gold bond issues were marketed in the United States: an issue of $1 million in 1932 and an issue of $10 million in 1933, by the Soviet-American Securities Corporation. In July, 1933, the Reconstruction Finance Corporation advanced funds to Amtorg for purchasing cotton.[16]

PERIOD SINCE RECOGNITION

Between November 8 and November 16, 1933, several meetings were held at the State Department and at the White House

[15]Committee on Russian-American Relations, *op. cit.*, p. 220.

[16] Cf. *Ibid.*, p. 187.

The terms of this transaction were as follows: the All-Russian Textile Syndicate, Inc., purchased from American firms a quantity of cotton under arrangement between the Amtorg Trading Corporation and the Reconstruction Finance Corporation to the effect that the latter would advance to the American firms 70 per cent of the value of the cotton against the firm's promissory notes collateralized by Amtorg notes for like amounts bearing the endorsement of the State Bank of the U. S. S. R., Moscow; the notes were repayable one year from date; interest at the rate of 5 per cent per annum was charged by the Reconstruction Finance Company on the loans. The arrangement with R. F. C. provided for the financing by it of 60,000 to 80,000 bales. A total of 64,200 bales was purchased by the All-Russian Textile Syndicate, Inc., having an aggregate value of over $4,000,000.

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with Ambassador Litvinov of Russia. Only a brief announcement of these conversations was made to the press. Upon their conclusion, however, the State Department released an official exchange of notes between Litvinov and the President of the United States which marked the formal establishment of diplomatic relations between the two nations, and set forth, in general terms, the common understanding that had been reached upon the issues that had for so long divided the two countries.[17] Concessions were made on both sides. The United States abandoned its original position of demanding complete settlement of all claims and debts before recognition; the Soviet Union acknowledged its debt obligations and surrendered its counter-claims for Siberian intervention, although not in North Russia. The United States was prepared to extend full facilities for Russian trade, and the Soviet Government pledged itself to refrain from all propaganda.

Discussion of the debt issue was conducted by Ambassador Bullitt at Moscow. American government claims arose out of loans of $187,729,750 advanced to the Russian Provisional Government in 1917, sales of surplus war material of $406,082, and other obligations amounting to $4,463,465 for relief supplies furnished by the American Relief Administration. The grand total was $192,601,297 of principal and about $8 million per year for interest. By 1934, the total amount due had reached $325 million.[18]

There were also private claims. An estimate made by the American Foundation Report places this figure at $400 million. It included $86 million of repudiated Tsarist bonds; $58 million of confiscated capital investments; and the balance, of losses suffered by American citizens in Russia.[19]

Against the claims of the American Government, the Soviets presented counter-claims for the damage done to Russian property as a result of American intervention in the North of Russia. Both Governments were willing to compromise upon a reasonable figure for the net amount due the United States. The United States was prepared to scale down the total to $150 million; Russia

[17] Cf. Dulles, *op. cit.*, p. 197.
[18] Committee on Russian-American Relations, *op. cit.*, p. 93.
[19] Cf. *Ibid.*, p. 103.

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offered to pay $100 million, on the condition that the United States would be willing to grant it further loans. The United States declined because of its general debt policy. While it was willing to grant long-term credits through the Export-Import Bank, at service charges which included provision for the gradual repayment of the original debt, an outright long-term loan was blocked by the Johnson Act which imposed a ban upon any further loans to a government already in default.[20]

The negotiations were shifted from Moscow to Washington, but neither government was willing to make any further concessions. After a brief interview between Secretary Hull and Ambassador Troyanovsky in February, 1935, negotiations were abruptly terminated. The State Department announced that negotiations had collapsed because of the refusal of the Soviet Government to accept the American proposals. Since that time, as far as is known, no new attempts to reconcile the divergent views of both governments have been attempted. In the meantime, however, negotiations for a trade agreement were much more successful and a commercial treaty was signed in Moscow in July, 1935. (*See* Appendix D for documents relative to this trade agreement and its successive renewals).

Special Trade Agreements

In July, 1935, the first trade agreement to facilitate and expand trade between the United States and the U. S. S. R. was concluded in Moscow in the exchange of notes between Ambassador Bullitt and Maxim Litvinov, Commissar for Foreign Affairs.[21]

Under this agreement the Soviet Government guaranteed to purchase $30 million of American goods during the next twelve months in return for equality of treatment of Soviet trade by the United States. The agreement provided, in general, for most-favored-nation treatment only, and was not negotiated under the authority of the Trade Agreements Act. On the basis of most-favored-nation treatment, the Government of the United States

[20] Cf. Dulles, *op. cit.*, p. 201.

[21] *Agreement between The United States of America and The Union of Soviet Socialist Republics,* Executive Agreement, No. 81 (U. S. Government Printing Office, Washington, D. C.), 1935.

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extended to the Soviet Union the tariff concessions which had been granted under the trade agreements with Belgium, Haiti, and Sweden, and agreed to extend to the Soviet Union the benefits of tariff concessions made under agreement with other countries, except Cuba, which might be negotiated during the life of the agreement.

The announced policy of the American Government in entering into trade agreements with other nations is that most-favored-nation treatment should be unconditional and extended to all nations on equal terms. Any concessions made to one country are automatically granted to other countries which are on a most-favored-nation basis with the United States. Usually, however, tariff concessions were made to a given country only in return for reciprocal concessions. In the agreement with Russia, the reciprocal concessions were in the form of a stipulation for an increase in the purchase of American exports. The reason for this procedure is explained by the Department of State in an official announcement on July 13, 1935, in connection with the Russian agreement as follows: "The fact of the existence of a state monopoly of foreign trade in the Soviet Union makes it necessary to depart somewhat from the ordinary form of trade agreement being entered into by the United States."[22] The announcement further stated that "this agreement with the Soviet Union, although intimately related to the trade-agreements program of the United States, was not concluded pursuant to the Trade Agreement Act of June 12, 1934. It does not involve any reciprocal concessions in respect of tariff rates."[23]

This agreement was in force for one year, and, subsequently, was extended for a second year, to July, 1937. On August 6, 1937, a new commercial agreement was proclaimed and became effective immediately. It did not differ materially from the previous agreements except that the Soviet Government promised to purchase, during the next twelve months, American goods to the value of at least $40 million. The United States promised to grant the U. S. S. R. unconditioned and unrestricted most-favored-nation

[22] Press release of July 13, 1935 (Department of State, Washington, D. C.).
[23] *Ibid.*

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treatment in all matters concerning customs duties and charges of every kind, and in the methods of levying duties. It excepted from the operation of the agreement any advantage accorded or which may be accorded by the United States to its territories or possessions, the Philippine Islands, or the Panama Canal Zone, or to one another, or to the Republic of Cuba.[24]

The 1937 agreement was renewed for successive periods of one year on August 5, 1938, and on August 2, 1939, and continued in force for another year, that is, until August 6, 1941.

As in the previous three agreements, the Soviet Government informed the American Government that the Soviet economic organizations intended to purchase, during the next 12 months, American goods to the value of at least $40 million. The agreement of 1940 takes into account the possibility that various export restrictions imposed by the United States in carrying out its national defense program may make it impossible for these organizations to carry out their intentions.

The Government of the United States undertakes in the agreement to continue to accord to the commerce of the Soviet Union unconditional most-favored-nation treatment with a reservation for imports of coal which was deemed necessary because of the nature of the coal-tax provisions of the Revenue Act of 1932.[25] Under this agreement, therefore, the Soviet Union continued to receive the benefits of concessions granted by the United States in trade agreements with countries, other than Cuba, entered into under the authority of the Trade Agreements Act. Thus, duties were reduced on a number of items of Soviet export to this country; however, they have had little effect on the total volume of Soviet commodities sold in the United States.

The Soviet Government in a note accompanying the agreement promised to export to the United States in the next 12 months not more than 400,000 tons of Soviet coal which was approximately the quantity of Soviet coal exported to the United States in the calendar year 1936. While there were imports of coal during each of the first three agreement years, such imports did not in any of

[24] *Ibid.*, August 6, 1940, No. 368.
[25] *Ibid.*, August 6, 1940, No. 368.

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these years amount to as much as one-half of the 400,000-ton limitation. Since October, 1939, there have been no imports of Soviet coal.[26]

By an exchange of notes between the United States and the U. S. S. R., a commercial agreement based substantially on the agreement of 1937 has been extended yearly.[27] According to E. C. Ropes, United States Department of Commerce, the agreement between the United States and Soviet Russia, negotiated in 1942, runs for an indefinite period.[28]

The diplomatic relations between the two countries after the unsuccessful debt negotiations were not friendly. They deteriorated further in 1939 after the signing by Moscow of the Russo-German treaty of nonaggression and of a trade agreement. Later, when the Russians occupied Eastern Poland, Lithuania, Estonia, Latvia, and declared war upon Finland, the United States Government went so far as to place a moral embargo upon exports of airplanes and processes of manufacturing high-test aviation gasoline. Demands even were made for immediate recall of the Ambassador of the United States at Moscow.

With the invasion of Russia by Germany in June, 1941, the relations between the two countries underwent a radical change. Soviet Russia signed the lend-lease master agreement with the United States and subscribed to the Atlantic Charter. The Soviet Union was in receipt of substantial amounts of materials from the United States under lend-lease until September 2, 1945, when, by order of the President of the United States, lend-lease shipments to Allied powers were discontinued.

[26] *Ibid.*

[27] *Agreement With The Soviet Union,* Department of State Bulletin, Washington, D. C., Vol. V, No. 111, Publication 1631, p. 115, 1941; Vol. III, No. 162, Publication 1778, p. 662, 1942.

[28] Ropes, E. C., "The Shape of United States-Soviet Trade," *The Slavonic and East European Review* (American Series, III, 2), 22, No. 59, August, 1944, pp. 1-16.

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CHAPTER VI

TRADE OF THE UNITED STATES WITH THE U. S. S. R.

Volume of Trade Before World War I

In the first half of the nineteenth century, the United States imported more from Russia than she exported to Russia, that is, the United States had an unfavorable balance of trade with Russia, and the bulk of United States shipments to Russia, for many years, consisted of re-exports. The United States sold small amounts of cotton, tobacco, rice and dyestuffs to Russia and reexported to her spirits, tea, spices, sugar, and other products from the Far East, and the Colonial possessions of France, Great Britain and Holland. The United States purchased from Russia considerable quantities of semi-manufactured iron products, sail duck and flax products.[1] Imports from Russia remained between $1 million and $3 million yearly until 1890.

During the second half of the nineteenth century, the balance of trade between the two countries shifted in favor of the United States, that is, exports exceeded imports, and domestic products represented an increasing proportion of the total exports to Russia. Shipments of cotton became more important and some manufactures, such as agricultural machinery, were shipped in increasing quantities. After 1850, sales to Russia rose rapidly—from $1 million in 1850 to $16 million in 1880. At the end of the century and later, the United States was buying from Russia chiefly raw materials, hides and skins, wool, flax and licorice. The value of these imports increased steadily from $2.8 million in 1880 to $7.2 million in 1900, and to $16.5 million in 1907. On the American export side, after a decline from 1890 to 1904, sales to Russia were keeping ahead of purchases. They amounted to $19.7 million in 1907.[2] This upward trend continued until 1914, but at no time did the

[1] Cf. Dulles, *op. cit.*, p. 22.

[2] Cf. Moore, Harriet, "American Relations with Russia and the U. S. S. R.," *The American Quarterly on Soviet Russia*, 1940, Vol. III, Nos. 2-3, pp. 5-6.

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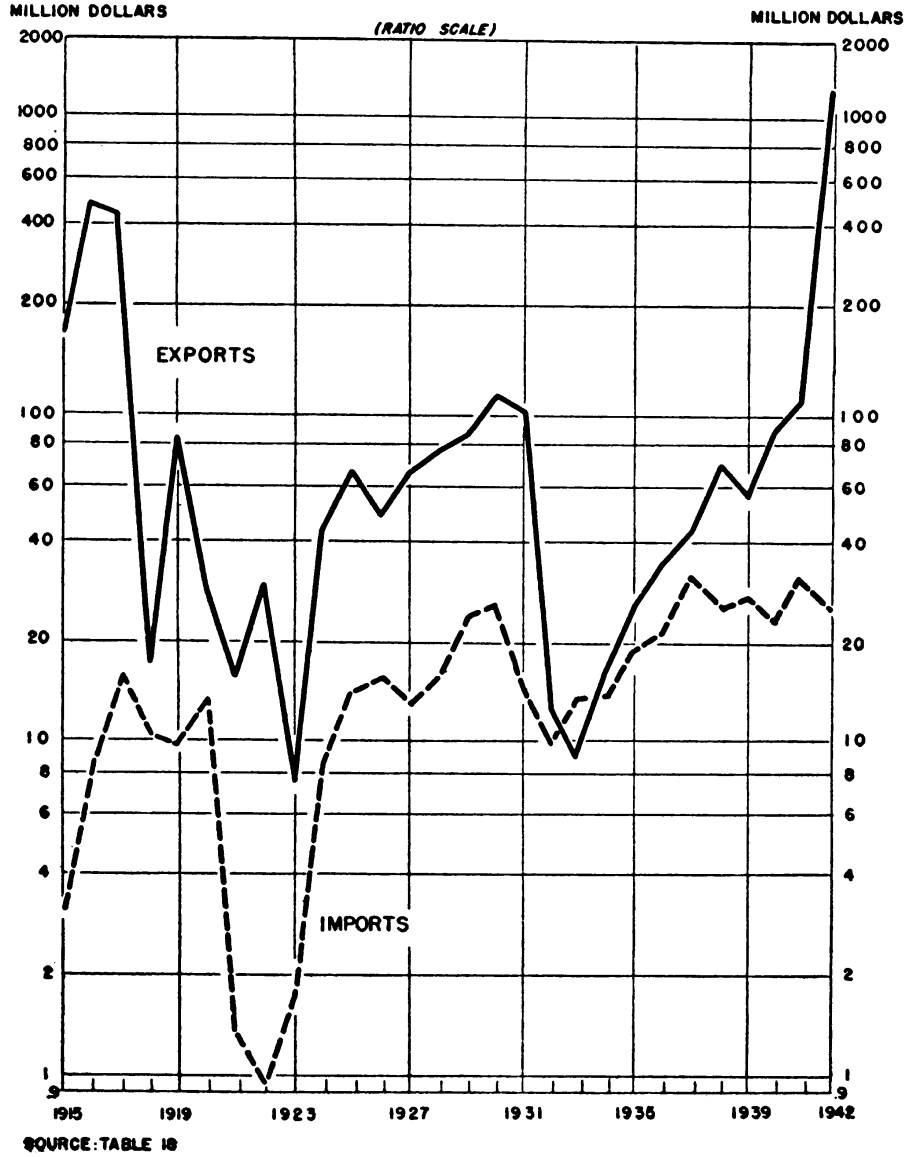
trade constitute an important share in the total trade of either Russia or the United States.

Volume of Trade During and After World War I

With the outbreak of World War I, the exports of the United States to Russia were greatly expanded, since Russia was cut off

CHART 4
TRADE OF THE UNITED STATES WITH THE UNION OF SOVIET SOCIALIST REPUBLICS
1915—1942



SOURCE: TABLE 18

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from Western Europe and the United States was the only country able to furnish Russia with the necessary materials to wage war (Table 18 and Chart 4). In 1915, the exports of the United States to Russia amounted to almost $170 million, and in 1916, to over $470 million. They declined to $424 million in 1917, and to a little over $17 million in 1918, because of the embargo by the

TABLE 18—TOTAL FOREIGN TRADE OF THE UNITED STATES, AND THE AMOUNT AND PERCENTAGE OF THE TOTAL WITH THE U. S. S. R., 1915-1942

YEAR	FOREIGN TRADE OF THE UNITED STATES (*Thousands of Dollars*)		TRADE WITH THE UNION OF SOVIET SOCIALIST REPUBLICS (*Thousands of Dollars*)			
	Exports[a]	Imports	Amount of Trade		Per Cent of U. S. Total	
			Exports[a]	Imports	Exports	Imports
1910-1914 average	$2,165,818	$1,688,876	$ 24,604	$20,865	1.1	1.2
1915	3,554,671	1,778,597	169,994	3,087	4.8	0.2
1916	5,482,641	2,391,635	470,508	8,619	8.6	0.4
1917	6,233,513	2,952,468	424,510	14,514	6.8	0.5
1918	6,149,088	3,031,213	17,336	10,760	0.3	0.4
1919	7,920,426	3,904,365	82,436	9,663	1.0	0.2
1920	8,228,016	5,278,481	28,728	12,480	0.3	0.2
1921	4,485,031	2,509,148	15,584	1,311	0.3	0.1
1922	3,831,777	3,112,747	29,896	964	0.8	[b]
1923	4,167,493	3,792,066	7,617	1,619	0.2	[b]
1924	4,590,984	3,609,963	42,103	8,168	0.9	0.2
1925	4,909,848	4,226,589	68,906	13,120	1.4	0.3
1926	4,808,660	4,430,088	49,906	14,122	1.0	0.3
1927	4,865,375	4,104,742	64,921	12,877	1.3	0.3
1928	5,128,357	4,091,444	74,091	14,025	1.4	0.3
1929	5,240,995	4,399,361	84,011	22,551	1.6	0.5
1930	3,843,181	3,060,308	114,399	24,386	3.0	0.8
1931	2,424,389	2,090,635	103,717	13,206	4.3	0.6
1932	1,611,016	1,322,774	12,641	9,736	0.8	0.7
1933	1,674,994	1,449,559	8,997	12,114	0.5	0.8
1934	2,132,800	1,655,055	15,011	12,337	0.7	0.7
1935	2,282,874	2,047,485	24,743	17,809	1.1	0.9
1936	2,455,978	2,422,592	33,427	20,517	1.4	0.8
1937	3,349,167	3,083,668	42,892	30,763	1.3	1.0
1938	3,094,440	1,960,428	69,691	24,034	2.3	1.2
1939	3,177,176	2,318,081	56,638	25,023	1.8	1.1
1940	3,951,950	2,784,250	86,943	22,274	2.2	0.8
1941	5,147,000	3,345,000	108,000	30,000	2.1	0.9
1942[c]	7,823,000	2,742,000	1,379,000	25,000	17.6	0.9

[a] Includes reexports.
[b] Less than 0.1 of one per cent.
[c] Includes lend-lease aid.

Source: 1910-1939—*Foreign Commerce and Navigation of the United States*, U. S. Department of Commerce, Washington, D. C., p. XI, 1929; p. S2, 1932; Vol. II, p. 485-86, 1934; p. XIV, 1938; p. XV, 1939; 1940—*International Reference Service*, U. S. Dept. of Commerce, Washington, D. C., Vol. I, No. 7, 1941; 1941 and 1942—*Foreign Commerce Weekly*, U. S. Dept. of Commerce, Vol. IX, No. 1, p. 4, 1943.

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Allied Governments on shipments to Russia. However, American exports to Russia increased to $82 million in 1919.[3]

The export values in 1921 and 1922 included relief sent to Russia during the famine of 1921. By 1924, with the introduction of the New Economic Policy, Russia began importing larger quantities of goods from the United States. With the inauguration of the First Five-Year Plan in 1928, exports of the United States to Russia increased from $74 million in 1928 to $84 million in 1929, and reached a peak of over $114 million in 1930. Exports declined slightly in 1931, to $103 million. In 1932, however, exports dropped abruptly to $12 million, and reached a low of $8.9 million in 1933.

There were several factors which accounted for this rapid decline of American exports to Russia. As mentioned previously, the lack of credit facilities for financing American exports to the Soviet Union, while such credits were extended to the Soviet Union by England, Germany, Italy and other countries, was an important factor. Commercial bills and acceptances of the Amtorg Trading Corporation could not be discounted and rediscounted by banks of the Federal Reserve System. This situation led to the purchase of such bills at very high rates of discount. Long-term credits for Russia, with maturities of two or more years, were virtually nonexistent, though the extension of such credits to Russia was a common practice in some European countries. Campaigns, moreover, were launched against the admission of Soviet goods into the United States because of the alleged use of forced labor in the production of goods, and the sale of goods below cost of production. Finally, the unwillingness of Soviet authorities to expand exports at a time when they were short of many necessities for their own population held imports, in the absence of credit, to a low level.

American exports to Russia expanded a little in 1934, although the increase in the value of goods exported was materially offset by the devaluation of the dollar in that year. With the signing of the Commercial Treaty with Russia in July, 1935, the exports of the United States picked up slightly, and finally reached the sum

[3] Apparently, these exports went chiefly to the White Russians under Admiral Kolchak who was recognized in 1919 by England, France and the United States as the Supreme Ruler of Russia.

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of $86.9 million in 1940, the last year before Germany invaded Russia, and rose to $108 million in 1941. It is probable that the increased purchases of American goods by the Soviets was due, in part, to a steady deterioration in political stability in Europe. When war was declared in August, 1939, the Soviets found themselves in difficulty, since France and England, being absorbed in the war effort, were unable to continue to supply Russia. The same was true of Germany in spite of the new trade agreement signed with that country in August, 1939.

In June, 1941, Germany invaded Russia, and the Soviet Union stepped up its purchases from the United States. In October, 1941, the United States government advanced to the Soviet Union $30 million out of the Stabilization Fund against gold which Russia would send to this country. Previously, $10 million had been advanced, against which gold to the same amount was later delivered. In November, lend-lease aid of $1 billion was pledged to Soviet Russia by President Roosevelt through an exchange of letters with Premier Joseph Stalin. The loan was to be used for military equipment, munitions, and raw materials. It was to be repaid over a period of 10 years. In January, 1942, the Soviet Union signed the master lend-lease agreement,[4] and subscribed to the Atlantic Charter. American exports to Russia in 1942 amounted to $1.3 billion, or 17.6 per cent of the total exports of the United States, which includes lend-lease aid.[5]

Trade of the United States With the U. S. S. R. in Relation to Total Foreign Trade of the United States

Imports from Russia were never of great significance to the United States between 1910 and 1942. They never exceeded 1.2 per cent of the total United States imports, and only once, in 1937, did they exceed $30 million (Tables 18 and 19). The bulk of imports during this period consisted of animal products and animals, nonmetallic minerals, and wood and paper.

[4] In Article VII of the lend-lease agreement, the United Nations exchanged mutual pledges for agreed action to eliminate discrimination in international trade and reduce tariffs and other trade barriers.

[5] Total exports to Russia, including lend-lease, amounted to $2,956 million and $3,460 million for the years 1943 and 1944, respectively. For the same period of time, general imports from the Soviet Union reached $30 million and $50 million, respectively. (*Foreign Commerce Weekly*, U. S. Department of Commerce, Vol. XIX, No. 8, p. 15, 1945.)

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On the other hand, Russian imports from the United States between 1926 and 1932 were four to five times greater than her exports to the United States. The differences in the values of imports from and exports to the United States (Table 19) and of United States exports to and imports from Russia (Table 18) are due to the fact that Table 19 is based on Russian statistics which, among other things, reflect a difference in time between the shipments of goods from American ports and their arrival into Russian ports of entry. The differences are relatively small, however, and do not affect the analysis of the trade trends between the two nations. The important fact is that since 1926, the percentage of imports from the United States to the total Russian imports has been generally rising until 1932. After 1931, imports from the United States dropped significantly for the three-year period 1932-1934, after which they began rising again.

TABLE 19—TRADE OF THE U. S. S. R. WITH THE UNITED STATES: AMOUNT AND PERCENTAGE OF RUSSIA'S TOTAL TRADE, 1926-1938
(Based on Russian Statistics)

Year	Exports to the United States *(Thousands of Dollars)*	Imports from the United States *(Thousands of Dollars)*	Per Cent of Total Exports	Per Cent of Total Imports
1926	$15,793	$ 62,913	4.5	16.2
1927	11,952	75,010	3.0	20.4
1928	13,888	96,698	3.2	19.9
1929	21,924	91,262	5.5	20.1
1930	21,080	136,162	3.9	25.0
1931	11,685	118,406	2.8	20.8
1932	8,855	16,307	3.0	4.5
1933	7,192	8,539	2.8	4.8
1934	7,053	9,206	3.4	7.7
1935	23,059	25,613	7.2	12.2
1936	26,018	41,805	9.6	15.5
1937	26,882	48,861	7.8	18.2
1938	19,350	81,172	7.3	28.5

Source: *Foreign Commerce Yearbook* (United States Department of Commerce, Washington, D. C.), p. 729, 1931; p. 379, 1935; p. 429, 1938; and p. 317, 1939.
Note: Imports are valued c.i.f., and exports f.o.b. port or frontier.

TRADE OF THE U. S. S. R. WITH THE UNITED STATES IN RELATION TO TOTAL FOREIGN TRADE OF THE U. S. S. R.

Table 6 shows the trade of Soviet Russia with the United States, France, Germany, England, and other nations in percentages of total trade and represents the bulk of Russian foreign

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trade. The chief competitors of the United States between 1925 and 1938 were Germany and the United Kingdom. It must be kept in mind, however, that the German and British industries granted long-term credits to Russia which were guaranteed by their governments. This had a decisive influence on the import policies of the Soviet Government, particularly during the period between 1932 and 1934, inclusive. After 1934, the trade agreements concluded between the United States and Russia had a steadying effect on the exports of the United States to Russia.

As indicated previously, Russian trade policies are affected by the degree of friendliness between the Soviet Union and other nations, and the Soviets are frequently willing to retaliate in case of disputes with other powers, or of allegedly unfair attitudes toward them. Table 6 reflects this tendency very clearly, particularly with regard to imports. Soviet Russia's relations with the United States in 1932 and 1933 were rather strained with a resulting decline in Russian imports from the United States. In 1932, the French tried to cut down on imports from Russia; the latter retaliated by importing less from France. The rise of Hitler in 1934 led to a marked decline in Germany's trade with Russia in spite of credits granted by Germany. With regard to Russia's trade with England, the same picture appears; in 1927, after Great Britain denounced its trade agreement with Russia, trade between the two countries declined markedly, and again in 1932, because of the Ottawa agreements.

The United Kingdom has been, in recent times, Russia's best customer. England, after 1920, replaced Germany as the largest importer of Russian goods, British imports from Russia being equal and sometimes greater than the combined imports from Russia of France, Germany, and the United States (Table 6). It should be emphasized again that, although the United States has sold, on the whole, more goods to Russia than any other single country since 1924, her imports from Russia have continued to be very low.

Generally, prior to 1940, both Soviet exports and imports occupied a relatively low position in the total trade of the United States. Thus, at the peak in 1931, American exports to the Soviet

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Union constituted only 4.3 per cent of the total exports of the United States, while at the maximum, Russian imports to this country amounted to only 1.2 per cent of the total American imports in 1938. With the exception of 1933, the balance of trade with the U. S. S. R. was always in favor of the United States (Table 18).

TYPES OF COMMODITIES TRADED BETWEEN THE UNITED STATES AND THE U. S. S. R.

Russian statistics dealing with the trade between the United States and Russia are available only up to 1938. The breakdown of Russian exports to the United States and imports from the United States, by type of commodity, is not very comprehensive; data for some of the years are not available, and the unclassified share of both exports and imports for some of the years is unduly high. However, such data as are available show the main types of commodities purchased and sold by the United States between 1913 and 1937 (Tables 20 and 21). Prior to 1917, the chief export items to the United States, in the order of their importance, were: raw hides, medicinal raw materials, and manganese ore. After 1920, the exports of Russian furs became the most important and valuable item. The value of manganese ore imports occupied the second place in importance among imports from Russia until 1938.[6] Table 20 also shows a percentage distribution of goods imported from Russia by type of commodity.

[6] Besides the commodities mentioned, a great number of other items are imported by the United States from Russia. The value of these imports, however, is rather low and represents only a small proportion of the total value of yearly imports. Among the more important commodities the following may be mentioned: (1) Foodstuffs: fish, (fresh, frozen, smoked and salted), caviar, crabmeat, canned fish (such as sardines, sturgeon, sprats), lentils, sunflower seed oil (imports practically stopped), mushrooms, confectionary items (such as jams, nuts, coriander seed, canned vegetables, mustard seed, mineral water, wines and vodka); (2) Animal products: animal hair (such as horsehair and animal hair), stearic acid, bones and glue; (3) Mineral products: iron ore, chrome ore, precious metals (platinum and allied metals), gold ore and concentrates (shipments started in 1934), silver, magnesite, apatite, mica, diatomaceous earth, paraffin, kaolin, pyrites, marble, glaziers' and engravers' diamonds, etc.; (4) Crude drugs and chemicals: gum tragacanth, ergot, miscellaneous drugs, poppy seed, inedible sunflower seed oil, essential or distilled oils, peat moss, alkaloids, chiefly nicotine, santonin, crude glycerine, and barytes; (5) Textiles: Oriental rugs and raw silk; (6) Wood and paper products: safety matches, oak staves and headings, veneers and plywoods, and miscellaneous woods and manufactures; (7) Miscellaneous group: books and printed matter, works of art, gold and silver articles and jewelry, motion picture films, handicraft articles, etc. For a complete list of individual commodities imported into the United States, see Appendix E, p. 147.

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BY TYPE OF COMMODITY, 1913-1937[a]

)	1931	1932	1933	1934	1935	1936	1937[e]
ents)							
47	3,684	2,361	2,470	2,291	2,024	1,192	..
21	2,164	3,780	2,339	740	3,092	3,724	..
59	3,530	907	..	..	101	182	..
13	2,908	5,966	5,033	4,183	5,103	3,690	..
90	3,854	3,254	2,238	1,669	1,826	1,965	..
12	4,406	12,027	14,791	10,665	27,414	47,366	..
77	114	88	83	131	3,000	2,708	..
19	11,160	11,975	5,238	5,514	6,807	6,623	..
85	15,702	1,586	3,171	4,577	5,514	8,732	..
08	2,720	..	359	841	793	2,035	..
94	223	420	1,292	1,397[d]	2,921	1,157	..
	..	..	..	2,729	2,759	1,983	..
53	1,305	696	1,205	1,796	2,116	2,373	..
85	47,612	32,250	22,948	26,000	52,793	46,361	..
73	99,382	75,310	61,167	62,533	116,263	130,091	134,412
oo)							
6	3.7	3.1	4.0	3.7	1.7	0.9	..
2	2.2	5.0	3.8	1.2	2.7	2.9	..
.6	3.6	1.2	..	..	[1]	0.1	..
.5	2.9	7.9	8.2	6.7	4.4	2.8	..
5	3.9	4.3	3.7	2.7	1.6	1.5	..
.1	4.4	16.0	24.2	17.1	23.6	36.4	..
2	0.1	0.1	0.1	0.2	2.6	2.1	..
.1	11.2	15.9	8.6	8.8	5.9	5.1	..
.5	15.8	2.1	5.2	7.3	4.7	6.7	..
.0	2.7	..	0.6	1.3	0.7	1.6	..
.5	0.2	0.6	2.1	2.2	2.5	0.9	..
	..	..	..	4.4	2.4	1.5	..
.0	1.3	0.9	2.0	2.9	1.8	1.8	..
.1	47.9	42.8	37.5	41.6	45.4	35.6	..
.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

use of rounding. [1] Less than 0.1 of one per cent.

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TYPE OF COMMODITY, 1913-1937

)29	1930	1931	1932	1933	1934	1935	1936	1937[c]
nts)								
Caca 263	9	4	31	..	96	..	..	..
Leat 193	22	..	..	..	123	416	897	..
Whi ,308	3,162	9	..	..	..	..	..	..
Rub ,696	8,423	..	..	..	..	..	19	..
Abra 66	31	70	57	4	..	771	4,358	..
Tan .	53	..	..	..	..	..	..	..
Shee 670	4,327	57	..	..	..	..	..	..
Cott ,000	86,000	..	..	31,000	10,600	42,700	400	..
Ferr ,237	11,147	5,913	6,036	7,967	5,808	11,204	22,222	..
Non ,997	33,533	12,168	1,278	1,077	3,486	11,844	12,904	..
Meta ,887	71,381	23,507	4,805	215	3,911	4,393	5,332	..
Mach ,967	367,000	337,000	69,922	14,642	32,819	30,913	122,000	..
Agri ,618	97,862	84,906	188	35	145	70	116	..
Elect ,775	53,589	55,906	21,120	4,533	9,237	9,395	20,540	..
Trac ,000	280,000	345,000	745	1,340	70	39	11	..
Auto ,659	84,994	108,000	25,851	8,322	4,770	4,892	3,870	..
Uncl ,835	56,508	34,488	8,660	3,485	7,228	8,503	16,956	..
,171	1,158,041	1,007,028	138,693	72,620	78,293	129,140	209,025	244,305

Caca 1)	(1)	(1)	(1)	..	0.1	..	..	..
Leath 1)	(1)	..	..	..	0.2	0.3	0.4	..
Whit 1.6	8.3	(1)	..	..	..	..	..	..
Rubb 1.0	(1) 0.7	..	..	..	..	..	(1)	..
Abra 1)	(1)	(1)	(1)	(1)	..	0.6	2.1	..
Tann	(1)	..	..	..	..	..	..	..
Shee 1)	0.4	(1)	..	..	..	..	..	..
Cotto 0.3	7.4	..	..	42.7	13.5	33.1	0.2	..
Ferro 0.8	1.0	0.6	4.4	11.0	7.4	8.7	10.6	..
Nonf 7.7	2.9	1.2	0.9	1.5	4.5	9.2	6.2	..
Meta 2.4	6.2	2.3	3.5	0.3	5.0	3.4	2.6	..
Mach 2.2	31.7	33.5	50.4	20.2	41.9	27.0	58.4	..
Agric 4.2	8.5	8.4	0.1	(1)	0.2	(1)	(1)	..
Elect 3.2	4.6	5.6	15.2	6.2	11.8	7.3	9.8	..
Trac 8.3	24.2	34.3	0.5	1.8	(1)	(1)	(1)	..
Auto 3.2	7.3	10.7	18.6	11.5	6.1	3.8	1.9	..
Uncl 5.0	4.9	3.4	6.2	4.8	9.2	6.6	7.8	..
0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Ja 0.1 of one per cent. Source: Bakulin and Mishustin, *op. cit.*, pp. 29, 246-47.

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With regard to exports of the United States to Russia, there are fairly satisfactory statistics, by type of commodity, from 1913 to 1937. Table 21 shows that 1930 and 1931 were the years of the largest imports from the United States. Cotton was the most important import item in prerevolutionary Russia; next in importance came agricultural machinery and parts; followed, in order

TABLE 22—TOTAL UNITED STATES EXPORTS OF MACHINERY EQUIPMENT, AND TOTAL MACHINERY-EQUIPMENT EXPORTS TO THE U. S. S. R. 1929-1934

Export Items	1929	1930	1931	1932	1933	1934
	Value *(Thousands of Dollars)*					
Total U. S. Exports:						
Industrial Equipment	$277,765	$228,291	$141,835	$58,679	$55,283	$98,348
Power-Driven Metal-Working Machinery	40,804	33,145	34,789	13,867	9,359	19,435
Electrical Equipment	121,357	118,260	85,080	43,382	43,500	66,525
Automobiles and Parts	539,298	277,425	146,693	76,274	90,631	190,208
Agricultural Equipment	140,800	116,035	57,402	10,348	12,215	....
Exports to U. S. S. R.:						
Industrial Equipment	14,785	41,890	38,995	5,925	1,392	3,878
Power-Driven Metal-Working Machinery	2,594	13,239	22,492	3,468	952	2,799
Electrical Equipment	2,606	5,062	6,693	2,100	186	365
Automobiles and Parts	3,280	5,880	11,579	2,702	1,117	758
Agricultural Equipment	20,715	42,131	37,885	120	109	....
	Exports to the U. S. S. R. as a Per Cent of United States Total					
Industrial Equipment	5.3	18.3	27.5	10.1	2.5	3.9
Power-Driven Metal-Working Machinery	6.3	40.0	64.7	25.0	10.2	14.4
Electrical Equipment	3.2	4.3	7.8	4.8	0.4	0.5
Automobiles and Parts	0.6	2.1	7.9	3.5	1.2	0.4
Agricultural Equipment	14.7	36.3	66.0	1.1	0.9	..

Source: *Handbook of the Soviet Union* (American-Russian Chamber of Commerce, New York, 1936), pp. 363-365.

of their importance, by machinery, apparatus and parts, and rubber and its products. Cotton, one of the principal imports from the United States, was imported in large quantities until 1931; small quantities of cotton were imported from 1933 to 1936, inclusive. By 1932, Russia had greatly expanded her cotton plantations and became practically self-sufficient. Imports of ferrous metals greatly increased in 1930, declined in 1931 and again increased in the succeeding years, reaching a peak in 1936. Imports

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of non-ferrous metals reached a peak in 1927-1928, after which imports declined but remained substantial. Imports of metallic products were substantial from 1923-1924 to 1936, with largest imports occurring in 1930. Machinery, apparatus and parts was always an important item in Russian imports, the largest imports being reached in 1930 and 1931. Imports of agricultural machinery reached a peak in 1930 after which they rapidly declined because of the ability of the Russians to manufacture this equipment in sufficient amounts by this time. Some of the most important items of Russian imports from the United States were electrical machinery, apparatus and parts. The peak of these imports was reached in 1931 after which the importation of these commodities declined greatly. Imports of tractors and parts reached a peak in 1931 when the Soviets struggled with the collectivization of farms and the program to mechanize farming. Imports of automotive equipment also reached a peak in 1931. Table 21 shows also the percentage distribution of Soviet imports from the United States, by types of commodities.

Table 22 gives United States exports of industrial and electrical equipment, automotive equipment and agricultural equipment to the Soviet Union in the 1929-1934 period, and the proportion of the United States total exports of these types of commodities going to Russia.

In the six-year period from 1929 to 1934, the total exports of industrial, electrical, automotive, and agricultural equipment and parts to Soviet Russia amounted to almost $300 million, more than 9 per cent of the total United States exports of these commodities. Table 22 clearly indicates the important role played by American mechanical equipment in the industrialization of Soviet Russia.

Since no Russian statistics have been published since 1937, statistics published by the United States Department of Commerce are used for an analysis of American-Russian trade since 1937. Imports from Russia declined from around $27 million to $22 million from 1937 to 1940, inclusive (Table 23).

The principal import items were inedible animal products and animals, including undressed and dressed furs and bristles. The total value of these imports rose from $12 million to $14.7 million

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TABLE 23—UNITED STATES IMPORTS FROM THE U. S. S. R., BY GROUPS OF COMMODITIES, 1937-1940

(United States Statistics)

Commodity Group	Value *(Thousands of Dollars)*				Per Cent of Total			
	1937	1938	1939	1940	1937	1938	1939	1940
Animal products and animals, edible, total	$ 2,176	$ 1,328	$ 1,610	$ 443	8.0	5.7	6.5	2.0
Animal products and animals, inedible, total	12,997	13,157	13,630	14,735	47.7	56.0	54.8	66.2
Vegetable products, inedible	635	779	1,229	1,777	2.3	3.3	4.9	8.0
Textile fibers and manufactures	1,854	1,586	960	732	6.8	6.7	3.9	3.3
Wood and paper	1,939	511	317	98	7.1	2.2	1.3	0.4
Nonmetallic minerals	1,643	1,460	1,469	105	6.0	6.2	5.9	0.5
Metals and manufactures, except machinery and vehicles	4,913	3,639	3,309	3,964	18.0	15.5	13.3	17.8
Chemicals and related products	838	752	1,163	166	3.1	3.2	4.7	0.7
Original sculptures of statuary	....	....	360	....	..	..	1.4	..
All other articles	244	310	807	254	0.9	1.3	3.2	1.1
Total: Imports for Consumption	$27,239	$23,502	$24,854	$22,274	100.0	100.0	100.0	100.0

Source: *Foreign Commerce Yearbook, 1939* (United States Department of Commerce, Washington, D. C.), 1942, p. 129; and *Trade of the United States with the Union of Soviet Socialist Republics in 1939* (Division of Finance and Regional Information, U. S. Department of Commerce), March, 1940.

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from 1937 to 1940. Imports of metals and manufactures, except machinery and vehicles, and consisting chiefly of manganese ore, declined from $4.9 million to $3.9 million between 1937 and 1940, while the value of imports of inedible vegetable products increased from $635 thousand to $1.7 million for the same period of time.

The percentage distribution of United States imports from Soviet Russia for the years 1937 through 1940 reveals that, in 1937, 47.7 per cent of the total value of imports consisted of inedible animal products and animals. The proportional share of this group of imports increased to 56 per cent in 1938, and to 66.2 per cent in 1940. Imports of metal and manufactures, except machinery and vehicles, represent 18 per cent of the total value of imports in 1937. They declined slightly in 1938 and 1939, and recovered lost ground in 1940 when they represented 17.8 per cent of the total value of imports in that year.

Imports of nonmetallic minerals declined from 6.8 per cent of the total imports to 0.5 of one per cent in 1940. This drastic decline may be accounted for by the closing of the Mediterranean Sea when the war spread to the southeast of Europe and the consequent closing of the Dardanelles. Manganese ore from Nikopol and the Caucasus is shipped through the Black Sea and the Dardanelles to the United States.

The value of United States exports to Russia increased from $42.8 million in 1937 to $86.9 million in 1940 (Table 24).[7]

The bulk of United States exports to Russia in 1937 consisted of machinery and vehicles valued at $20.1 million; metals and manufactures, at $13.7 million; nonmetallic minerals, at $6.3 mil-

[7] The exports comprised the following groups of commodities: (1) inedible animals and animal products consisting of sole leather bend backs and sides; (2) vegetable food products, chiefly wheat; (3) vegetable inedible products; (4) textile fibers and manufactures, consisting of raw cotton; (5) nonmetallic minerals, namely, natural gasoline, gasoline and other petroleum motor fuel, wheels of artificial abrasives, carbon electrodes; (6) metals and manufactures, such as, iron and steel plates, steel sheets, black, wire and manufactures, ferroalloys, aluminum ingots and alloys, plates, sheets, refined copper ingots, bars and other forms, copper wire, brass and bronze, etc.; (7) machinery and vehicles, consisting of electric furnaces, radio apparatus, condensers, internal combustion engines, engine accessories and parts, construction and conveying machinery, well and refining machinery, pumping metal-working machinery, textile machinery, ball and roller bearing and parts, automobile and aircraft with parts and accessories, freight cars, etc.; (8) chemical and related products, including sodium compounds; (9) other domestic articles, including scientific and professional instruments; and (10) reexports of foreign merchandise including crude rubber, refined copper and manufactures, tin bars, blocks, pigs, etc.

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TABLE 24—UNITED STATES EXPORTS TO THE U. S. S. R., BY GROUPS OF COMMODITIES, 1937-1940
(United States Statistics)

Commodity Group	Value *(Thousands of Dollars)*				Per Cent of Total			
	1937	1938	1939	1940	1937	1938	1939	1940
Animals, animal products, inedible	$	$ 2	$ [a]	$ 2,192	..	[b]	[b]	2.5
Vegetable food products, total	3	[a]	1,719	2,999	[b]	[b]	3.0	3.4
Vegetable products, inedible, total	711	59	35	117	1.7	0.1	0.1	0.1
Textile fibers and manufactures	....	3	9	8,310	..	[b]	[b]	9.6
Nonmetallic minerals, total	6,362	5,844	3,020	2,194	14.8	8.4	5.3	2.5
Metals and manufactures, total	13,748	12,242	17,867	25,254	32.1	17.7	31.5	29.0
Machinery and vehicles, total	20,195	49,422	28,502	40,201	47.1	70.9	50.3	46.2
Chemicals and related products, total	424	846	213	25	1.0	1.2	0.4	[b]
Other domestic articles	1,386	1,165	443	801	3.2	1.7	0.8	0.9
Reexport of foreign merchandise	63	88	4,830	4,851	0.1	0.1	8.5	5.6
Total: Includes Reexports	$ 42,892	$69,691	$56,638	$86,943	100.0	100.0	100.0	100.0

[a] Less than $1 million.
[b] Less than 0.1 of one per cent.

Source: *Foreign Commerce Yearbook, 1939* (United States Department of Commerce, 1942, p. 128; and *Trade of the United States with the Union of Soviet Socialist Republics in 1939* (Division of Finance and Regional Information, U. S. Department of Commerce), March, 1940.

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lion. In 1938, exports of machinery and vehicles rose to $49.4 million, those of metals and manufactures and nonmetallic minerals declined to $12.2 million and $5.8 million, respectively. In 1939, exports of machinery and vehicles declined to $28.5 million; however, exports of metals and manufactures rose to $17.8 million, and reexports of foreign merchandise reached $4.8 million. During 1940, exports of machinery and vehicles, metals and manufactures, and textiles increased to a very great extent. Generally, exports of all commodity groups increased with the exception of the nonmetallic mineral and chemical and related products groups which declined.

The percentage distribution of exports to Russia by commodity groups fluctuated from year to year. The greatest fluctuations were in the group of textile manufactures; no textiles were exported to Russia in 1937, but, in 1940 textile exports rose to 9.6 per cent of the total value of exports. Reexports rose from 0.1 of 1 per cent in 1937 to 5.6 per cent in 1940. Exports of nonmetallic minerals declined from 14.8 per cent in 1937 to 2.5 per cent of the total value of exports in 1940. The important factors are that in both the machinery and vehicle and the metal and manufacture groups, exports to Russia almost doubled during this period. In the former group, exports rose from $20.1 million in 1937 to $40.2 million in 1940; in the latter group, from $13.7 million in 1937 to $25.2 million in 1940. At the same time, the relative proportion of the total value of exports in these commodities changed little.

Table 25 shows the break down of United States exports to Soviet Russia, by type of commodity, in 1940 and 1941. The data show clearly the effect of the war on the type of goods purchased by the Russians in 1941 as compared with 1940. The value of total exports in 1941 increased 28 per cent from 1940, but the value of individual commodities necessary for strengthening the defensive potential of Soviet Russia increased in many cases by over 1,000 per cent.

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TABLE 25—UNITED STATES EXPORTS TO THE U. S. S. R., BY TYPE OF COMMODITY, 1940 AND 1941

Item	Value (*Thousands of Dollars*)		Per Cent of Increase (+) or Decrease (—)
	1940	1941	
Lard	$ ..	$ 411	+ x
Sole leather	2,180	3,343	+ 53
Boots and shoes	..	488	+ x
Rubber and manufactures	95	600	+532
Automobile tires	18	474	+ x
Other casings and tubes	[a]	106	+ x
Cotton, duck and tire fabric	..	75	+ x
Cordage, except of cotton or jute	..	14	+ x
Wool cloth and dress goods	..	168	+ x
Vulcanized fiber sheets	1	10	+900
Petroleum and products	1,935	11,116	+474
Anti-knock compounds	1	856	+ x
Aviation motor fuels	..	6,880	+ x
Other motor fuel	1,850	1,750	— 5
Abrasives	196	737	+276
Electrodes for furnaces	42	78	+ 86
Tin plate and taggers tin	509	698	+ 37
Barbed wire	..	927	+ x
Ferro-alloys	276	18	— 94
Aluminum plates, sheets, bars	..	955	+ x
Copper refined	14,026	1,007	— 93
Copper wire and cable	7	1,106	+ x
Brass plates and sheets	5,005	744	— 85
Zinc slabs, plates, blocks	..	89	+ x
Molybdenum ore and concentrates	241	1,777	+637
Electrical machinery and apparatus	3,143	6,201	+ 97
Motors, starters, and controllers	1,210	1,476	+ 22
Searchlight and airport beacons	52	2,708	+ x
Radio apparatus	142	273	+ 92
Telephone instruments	[a]	201	+ x
Excavators and power shovels	2,904	612	— 79
Mining, well, and pumping machinery	3,102	6,844	+121
Metal working machinery	23,879	6,377	— 73
Ball bearings	9	61	+578
Roller bearings	101	232	+130
Air compressors	331	848	+156
Motor trucks and busses	145	11,901	+ x
Freight cars	343	1,296	+278
Coal-tar products	10	394	+ x
Toluene	..	285	+ x
Phenol	..	91	+ x
Ethyl fluid[b]	..	376	+ x
Industrial chemicals	1	230	+ x
Military exports	271	28,131	+ x
Total Domestic Exports	$82,087	$105,310	+ 28

[a] Less than $500.
[b] Classification established July 1, 1941.
(x) Over 1,000 per cent.

Source: Ropes, Ernest C., The Shape of United States-Soviet Trade, Past and Future," *The Slavonic and East European Review*. Published for a committee of American scholars by George Banta Publishing Company, Menasha, Wisconsin, (American Series III, 2), Vol. XXII, No. 59, August, 1944, p. 11.

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As mentioned above, the breakdown of export data for 1942, 1943, and 1944, are not available although the total value of exports to Russia has been released.[8]

According to information released by the United States Department of Commerce on total trade with the Soviet Union in the first six months of 1945, domestic exports amounted to almost $1.4 billion, and reexports, to $3 million, while imports from Russia amounted to $36 million (Tables 26 and 27).

The military items exported amounted to $305.9 million, distributed as follows: chemicals, $5.3 million; machines and vehicles, $276.7 million; and miscellaneous items, $23.9 million. All the

[8] According to the *Twentieth Report to Congress on Lend-Lease Operations, for the period ended June 30, 1945,* lend-lease shipments to the Soviet Union up to July 1, 1945, amounted to $9,128,875,000 which was 28 per cent of the total lend-lease shipments from the United States to all countries. The value of lend-lease exports from the United States to the U. S. S. R., by major types of exports, as given in this report is shown below:

	January-March, 1945	*April-June, 1945*	*Cumulative to July 1, 1945*
	(Thousands of Dollars)		
Ordnance and Ammunition	$ 22,376	$ 12,776	$ 809,580
Aircraft and Parts	85,804	87,988	1,583,827
Tanks and Parts	36,416	18,221	478,394
Motor Vehicles and Parts	99,086	165,942	1,322,933
Water Craft	16,760	12,634	267,610
All Munitions	$260,442	$297,561	$4,462,344
Petroleum Products	13,237	19,098	103,975
Industrial Materials and Products	261,966	247,189	2,946,336
Agricultural Products	128,902	143,203	1,616,220
Total	$664,547	$707,051	$9,128,875

By the end of June, 1945, munitions valued at $4,462,000,000 were shipped, which accounted for 49 per cent of total lend-lease shipments to Soviet Russia. Airplanes, parts and spare engines constituted the largest single group of munitions, amounting to $1,584,000,000. More than 14,450 planes, including 9,700 pursuit planes and 3,800 bombers, and more than 47,700,000 square feet of aircraft landing mats were shipped. Lend-lease included 7,000 tanks, 3,200 armored scout cars, 2,200 ordnance service vehicles, 52,000 jeeps, 363,000 trucks, and 35,000 motorcycles. Other munitions consisted of 8,200 antiaircraft guns, 135,000 submachine guns, 343,000 tons of explosives, 105 submarine chasers, 195 torpedo boats, and 7,600 marine Diesel engines. The United States shipped also over 1,045 locomotives, over 7,160 flat cars, and over 1,200 dump cars and tank cars. Machine tools valued at $320 million, additional metal-cutting tools worth $35 million, petroleum refining equipment having a value of $43 million, and $171 million worth of electric generator sets have been supplied under lend-lease. Lend-lease metal exports included 2,688,000 tons of steel, 17,600 tons of ferro-alloys, and 810,000 tons of nonferrous metals. In addition, over 3,000,000 tons of food, over 7,000,000 army boots, over 1,265,000 tons of petroleum products, and miscellaneous items were delivered between October 1, 1941 and July 1, 1945. The total value of reverse lend-lease aid provided by the U. S. S. R. to the United States to April 1, 1945 is placed at $2,139,000. This included repairs and supplies to American merchant ships in Soviet ports, bases, services and supplies to American planes and pilots and the air-force crews and mechanics stationed in the Soviet Union.

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TABLE 26—EXPORTS THE UNITED STATES TO THE U. S. S. R., BY GROUPS OF COMMODITIES, JANUARY-JUNE, 1945

ITEM	Value (*Thousands of Dollars*)	Per Cent of Total
Animal oils and fats, edible	$ 18,210	1.3
Cotton manufactures	6,583	0.5
Dairy and egg products, dried	98,857	7.1
Grains and preparations	7,952	0.6
Leather and leather manufactures	17,963	1.3
Meat products	95,568	6.9
Paper and related products	1,660	0.1
Rubber and manufacturers	25,939	1.9
Seeds, except oilseeds	5,441	0.4
Sugar, refined	7,845	0.6
Vegetables and preparations	18,864	1.4
Vegetable oils and fats, edible	6,195	0.4
Vegetable oils, inedible	753	[a]
Wool manufactures	33,124	2.4
Abrasives	5,231	0.4
Aluminum and manufactures	1,222	0.1
Brass and bronze manufactures	12,529	0.9
Carbon and graphite products	1,523	0.1
Copper and manufactures	18,820	1.4
Ferro-alloys	1,909	0.1
Iron and steel, semimanufactures	29,646	2.1
Iron and steel, advanced manufactures	4,387	0.3
Molybdenum ore	1,127	0.1
Nickel and nickel-chrome products	1,099	0.1
Steel-mill manufactures	40,337	2.9
Petroleum and products	31,190	2.2
Tungsten metal, wire, shapes and alloys	952	0.1
Agricultural machinery	15,476	1.1
Construction and conveying machinery	21,073	1.5
Electrical machinery and apparatus	70,395	5.1
Internal combustion engines	24,294	1.8
Metal-working machinery	60,958	4.4
Mining, well and pumping machinery	12,767	0.9
Steam locomotives	58,459	4.2
Automotive parts and accessories	197,567	14.3
Freight cars, over 10 tons capacity	8,354	0.6
Merchant vessels	7,611	0.5
Chemicals, specialties and industrial chemicals	32,902	2.4
Coal tar products	4,024	0.3
Medicinal and pharmaceutical preparations	8,640	0.6
Machines and vehicles, and miscellaneous, military group	305,893	22.1
Miscellaneous group	59,929	4.3
Reexports of foreign merchandise	3,083	0.2
Total: (Includes Reexports)	$1,386,351	100.0

[a] Less than 0.1 of one per cent.

Source: *Foreign Commerce Weekly* (United States Department of Commerce, Washington, D. C.), Vol. XXI, No. 5, 1945, pp. 48-49.

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other items are classified as in peacetime, although most of them served to support or increase the military effort, either as foodstuffs, clothing and other personal necessities for the Russian Army, or as equipment and materials for the Soviet war industries. The chief exports to Russia and their values during this period were: meat (bacon, pork and varieties of canned meat), $95.6 million; dairy and egg products, $98.9 million; automobiles, parts and accessories, $197.6 million. The Soviet transportation

TABLE 27—GENERAL IMPORTS OF THE UNITED STATES FROM THE U. S. S. R., BY GROUPS OF COMMODITIES, JANUARY-JUNE, 1945

ITEM	Value (*Thousands of Dollars*)	Per Cent of Total
Animal products, edible	$ 694	1.9
Animal products, inedible	21,286	59.1
Vegetable food products	.....	....
Vegetable products, inedible	2,000	5.6
Textile fibers and manufactures	1,912	5.3
Wood and paper	397	1.1
Nonmetallic minerals	449	1.2
Metals and manufactures	8,995	25.0
Machinery and vehicles	[a]	[a]
Chemicals and related products	186	0.5
Miscellaneous	95	0.3
Total Imports	$36,014	100.0

[a] Less than one-half unit.

Source: *Foreign Commerce Weekly* (United States Department of Commerce, Washington, D. C.), Vol. XXI, No. 5, 1945, p. 51.

Note: "General imports" differ from "Imports for consumption" to the extent that the "withdrawals for consumption from warehouses" included in the latter were more or less than the "entries for bonded customs warehouses" which are included in general imports.

system was greatly aided by the shipment of 632 steam locomotives, valued at $58.5 million, and 2,422 freight cars, valued at $8.4 million. An important export item consisted of aviation gasoline and compounds to raise octane rating, amounting to $31.2 million. The value of the exports of iron and steel products (iron and steel, semi- and advanced manufactures, and steel-mill manufactures), amounted to some $74.4 million, and of copper, brass and bronze, nickel and tungsten, and their products to $33.4 million. Shipments of electrical equipment, machinery and apparatus amounted to $70.4 million. Exports of metal working machines, directly used in Soviet plants and mills, amounted to $61.0 million.

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Industrial chemicals, valued at $32.9 million, consisted mostly of alcohols.

Among the commodities imported from Soviet Russia, undressed furs were the leading item, and were valued at some $19.5 million. Next in importance came imports of chrome ore, $5.4 million, manganese ore, $2.2 million, and platinum, $1.2 million. Cut emeralds represent a new import item and were valued at $34 thousand. The remaining list of imports represents items that have regularly been imported from the Soviet Union for a number of years (Table 27).

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CHAPTER VII

CONCLUSIONS

Whatever points of view one may have with regard to various aspects of the Russian economic system one fact remains irrefutable: namely, that this system has enabled the Soviet Government to accomplish, in a comparatively short time, a large-scale industrialization of the country and a great rearmament program. The accomplishment, moreover, was based predominately on the use of internal resources and without the substantial help of foreign capital which has characterized similar periods of rapid industrialization in other countries.

The special conditions under which industrial production takes place in Soviet Russia eliminates a large part of the uncertainty and risk of financial insolvency which retards, severely at times, industrial expansion in other countries. The state owns the means of production and finances the construction of new plants. The "profits" of industry go to the state and by redistributing these "profits" between different plants, subsidizing some of them, production is stabilized, expanded, and continued without reference to short-run financial solvency or uniformly high profit returns. The state monopoly of foreign trade, moreover, prevents world prices from influencing internal prices since Russian currency is not quoted in foreign markets and cannot be exported or imported. In addition, all prices, with the exception of a very small segment of the economy in which the collective farmer sells his surplus produce to the city dweller without state intermediaries, are fixed by the state planning organization. For most of the commodities sold by the state, the fixed prices exceed costs of production and the difference goes to the state budget in "profit" or "turnover tax." With regard to agriculture, the state is able to purchase agricultural products (except the peasants' surplus) at low prices and sell them to the population at much higher prices. This income from industry and agriculture is the chief source for financing the industrialization of the nation.

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As indicated previously, the trade of the United States with Soviet Russia has never been of great importance to the United States. Imports from Russia were insignificant and never exceeded 1.2 per cent of the total American imports, while exports to Russia, although much greater in value, were also of relatively little importance as compared with the total exports of the United States. From the Russian point of view, however, trade with the United States has had a much greater significance, particularly with regard to imports. These fluctuated between 4.5 per cent and 28.5 per cent of the total Russian imports between 1924 and 1938. On the other hand, exports to the United States never exceeded 9.6 per cent of the total Russian exports.

It must be kept in mind also that Russian foreign trade depends, to a great extent, upon Russia's political relations with foreign countries. Countries with which friendly political relations are established usually benefit by expanded trade relations.

Soviet Russia's main imports from the United States in the last fifteen years have consisted mainly of machinery and vehicles, that is, machine tools, automobile and air transport equipment, oil well and refining equipment, and electrical equipment. The principal American imports have been animal products, mainly furs; in addition, metal and manufactures have been imported, consisting primarily of manganese ore and platinum bars and ingots.

With regard to the postwar trade between the United States and Soviet Russia, two cardinal factors should be kept in mind. First of all, Russia has a planned economy, and there is little reason to believe that this economic system will be drastically changed in the near future. The Soviet economic system has been subjected to a terrific test of war production, and it has passed the test successfully. Minor changes in the system may take place, as they have in the past, but the Soviet system, during the last 25 years, has exhibited enough flexibility and resilience to changing economic conditions of great intricacy in the world to indicate minor rather than major changes in the future. The other cardinal factor to remember is that the economic life of the country is determined by the national economic policy which represents the aims of the Communist Party and its leaders.

Assuming, then, that there will be no basic change in the

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character of the Soviet economy and that the postwar international political situation will be sufficiently stabilized for a substantial curtailment in the production for national defense, the demand for imports and the volume of exports will depend primarily on the decisions of the Soviet Government with respect to reconstruction of the national economy and the needs of the population. The Soviet Government will have to choose and allocate scarce resources for reconstruction of the country and for the immediate production of consumers' necessities.

Agricultural reconstruction is of paramount importance to Russia. Every effort will probably be made to resume as rapidly as possible the production of agricultural machinery and equipment. In the interim, some equipment may be imported to hasten the restoration of agriculture. A similar effort will be made for the reconstruction of railways which can be accomplished largely without outside help. In this instance the most pressing need for imports would probably be for locomotives.

If the Soviet authorities decide to give the Russian people a better supply of goods for immediate consumption, not only may the consumer-goods industries be given priorities in reconstruction, but, also, there may take place even a certain amount of importation of finished goods, as well as of raw materials and production equipment essential for the consumer-goods industries.

On the other hand, if the Soviet Government decides that the reconstruction work is necessary primarily for the defense of the country, the building and restoration of capital-goods industries will again become the paramount task, and the demand for imports will be in terms of the equipment essential for the restoration of these industries. In either case, there is no basis for estimating the extent of the import demand directed toward the United States because it will be affected by a number of factors, such as, the political relations with the United States, Great Britain and Germany; the conditions of peace with Germany and particularly the decisions made by the Allies with regard to German industries; and the credit facilities which the United States and the United Kingdom will be willing to grant to Russia.[1]

[1] After conferring for three weeks at Potsdam, the governments of the United States, the United Kingdom, and the U. S. S. R., announced on August 2, 1945, that Allied

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The Russian demands on Germany for reparations in kind will certainly play an important role in the reconstruction of the country and will influence the volume and character of imports from the United States. There is no doubt that German industry will be forced to produce and supply a substantial amount of equipment wanted by Russia. The demand may be in the form of finished goods manufactured by Germany according to Russian specifications, or it may be in the form of plants and equipment, that is, Soviet Russia will simply dismantle a number of German factories or parts of them and transport them to Russia. This has already been happening in the part of Germany occupied by Russian troops. Furthermore, Germany and Russia are economically complementary and territorially close enough to promote two-way trade.

Russia suffered tremendous economic losses during the war, and it may be reasonably assumed that for several years there will be a decline in some of the Russian exports. Exports of lumber, for example, will probably be curtailed. Whether this situation will affect severely Russia's capacity to import will depend on long-term credit arrangements made among the United Nations as well as on private credit arrangements. There is no exact data on the extent of Russian gold hoards, but, judging from the information available, the Soviet Government has substantial amounts of gold which it is willing to use for purchasing goods from abroad. The desire of the Soviet Government to have the gold standard reestablished in the world as a means of settling international payments seems to emphasize that point.[2]

Reports to the effect that golden opportunities for the businessman of the United States will exist in the postwar trade with

agreement had been reached on many of the major problems facing Europe. Plans were laid for the future control of Germany, the exaction of reparations, and war criminal trials. Each occupying power is to satisfy its reparation claims by removal of German industrial equipment from its own zone of occupation and from appropriate German external assets. No decision has been made as to the reparations total, which is to be dealt with later.

[2] The Soviet Government was one of the signatory nations at the United Nations Monetary and Financial Conference held at Bretton Woods in July, 1944. Article IV, Section 1, of the articles of agreement states that "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944." (*International Monetary Fund and International Bank for Reconstruction and Development,* U. S. Treasury, Washington, D. C., 1944, p. 4).

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Soviet Russia are disturbing. Obviously, the Soviet Union will need everything from locomotives to pen points, but how will Russia pay for these imports? There does not seem to be much probability for the expansion of trade between the two nations on a triangular or multilateral basis in the near future, except in the case of an expansion of Russian exports to Latin American countries, which are among the very few countries having an export balance with the United States. However, in view of the fact that the postwar relations with Russia will probably be much closer than in the past, and also, in view of the fact that more adequate credit facilities may be available to Russia, the postwar trade between the two countries is likely to increase substantially.[3]

Two mistakes are frequently made in relation to Russia's foreign trade of the future: the first one is that Soviet Russia offers a great opportunity for exports, and the second, that the Soviet Union will be able to flood world markets with her exports. The two mistakes are made simply because of the failure to understand the fundamental basis on which the Soviet economic system operates, namely, to become as self-sufficing as possible and, consequently, to import only for satisfying the most urgent needs,[4] and to restrict exports to a level which roughly balances that level of imports.

[3] On May 5, 1944, The *New York Times* carried the information that a Soviet trade commission has placed large orders for goods, both consumers' goods and capital equipment, with American firms for postwar deliveries totaling $2.5 billion. The Russian agreement with American private firms extends for 10 years.

[4] It is irrational to aim at self-sufficiency when based on alleged economic advantages. As a means to achieve certain ends, such as economic independence or military security, it may be perfectly sound, and planning is a powerful tool to achieve it. In the thirties, Soviet Russia was forced to curtail or reduce its economic intercourse with the outside world not merely because of its determination to build capital-goods industries, but also because of the speed with which the industrialization process of the nation was carried on. The great speed with which Russian factories were built forced the Russians to import a very large volume of heavy equipment and various materials. However, because of limited means and lack of long-term credits, the Soviet Union had to keep the importation of consumers' goods at a very low level. As long as a country, which has a limited credit abroad, adopts a very rapid industrialization policy, it is bound to curtail its imports generally, or to select carefully the type of goods to be imported, and it will have to ration its foreign exchange through exchange control, import quotas, or a foreign-trade monopoly.

Soviet Russia has been able to achieve a great degree of self-sufficiency only at the cost of forcing upon her citizens standards of living lower than those which could have been attained on the basis of geographic specialization and international trade. However, there seems to be some evidence that, at present, the Soviet Union is willing to play an increasingly active role in world trade, provided its political relations with the Western world remain friendly, and she may even liberalize her policies with respect to international trade and self-sufficiency if she can depend upon being able to live in a world of friendly nations.

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Russia has never been able to supply her population with all the necessities which are required to maintain decent standards of living; since 1939, all her energies have been devoted to self-defense which fact has further limited her ability to supply her population with consumers' goods. Doubtless, there has been accumulating a tremendous demand for all kinds of goods, and it will take a number of years to restore the damage done by the German invasion to the Russian economy, and to supply her citizens with the most critically needed goods. Prior to the war there was a chronic shortage of consumers' goods, and Soviet Russia could absorb and use all the production facilities of her industries. From this point of view, there has always existed an unlimited internal market for all kinds of commodities. Because of the war, conditions of living in Russia have been steadily deteriorating, and the population has been, literally, starved for goods. Consequently, the Russians are bound to devote all of their energies to supplying themselves with all kinds of commodities required to raise their standards of living. Soviet Russia will not only have full employment for decades to come, but will probably be short of labor for a very long time. Hence, the apprehensions of many individuals that, at some time, in the near future Soviet Russia will actively compete with American industries in world markets is without foundation.

For the same compelling reasons, Russia is not interested in building up a large export balance or acquiring large amounts of gold. With regard to foreign investments, Russia has never been interested in them, probably on account of lack of capital and because of her slow industrial development. There is some indication, however, that, at present, the Soviet Union is showing more interest in investment possibilities in some of her neighboring countries, for instance, in Iran where she seems to be interested in large undeveloped oil fields located in Northern Iran, and in Poland and Romania where she may help in the reconstruction of some industries wrecked by the war, and in this way acquire economic interests in these two countries.

A new tendency of the Soviet Union has become apparent more recently, which is to maintain a partial economic control over some of the former enemy nations, such as Bulgaria, Hun-

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gary and Romania. Furthermore, Russia has concluded trade agreements with Czechoslovakia, Hungary and Poland, which give her valuable economic rights and privileges in these countries. Obviously, no comprehensive estimate can be made at present with regard to this tendency toward economic expansion.

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APPENDIX A

TABLE 1—VALUE AND PERCENTAGE DISTRIBUTION OF RUSSIAN EXPORTS, BY COUNTRY AND BY SELECTED YEAR, 1894, 1903, AND 1913

Country	Exports (*Millions of Rubles*)			Percentage Distribution[a]		
	1894	1903	1913	1894	1903	1913
Central Europe[b]	241	371	696	35.9	37.1	45.8
Germany	148	233	454	22.0	23.3	29.9
The Netherlands[c]	53	101	177	7.9	10.1	11.6
Austria Hungary	40	37	65	6.0	3.7	4.3
Western Europe[b]	285	394	508	42.4	39.4	33.4
United Kingdom	175	218	268	26.0	21.8	17.6
France	56	76	101	8.3	7.6	6.6
Italy	27	57	74	4.0	5.7	4.9
Belgium	27	43	65	4.0	4.3	4.3
Northern Europe[b]	28	95	109	4.2	9.5	7.2
Denmark	4	27	36	0.6	2.7	2.4
Norway	5	11	7	0.7	1.1	0.5
Sweden	4	10	11	0.6	1.0	0.7
Finland	15	47	55	2.2	4.7	3.6
Southeastern Europe[b]	29	44	65	4.3	4.4	4.3
Turkey	16	19	36	2.4	1.9	2.4
Romania	8	16	22	1.2	1.6	1.4
Greece	5	9	7	0.7	0.9	0.5
Near and Far East[b]	19	55	99	2.8	5.5	6.5
China	5	22	31	0.7	2.2	2.0
Iran	12	27	58	1.8	2.7	3.8
Japan	..	1	1	..	0.1	0.1
Egypt	2	5	9	0.3	0.5	0.6
North and South[b] America	2	5	14	0.3	0.5	0.9
United States	2	5	14	0.3	0.5	0.9
Brazil	..	..	..	..	..	..
All Others	18	37	29	10.0	3.7	1.9
Total	672	1001	1520	100.0	100.0	100.0

[a] May not always add to 100.0 because of rounding.

[b] The totals in these groups include only the principal countries; the less important countries in each group are included under "All Others."

[c] The Netherlands are included in this group because a large part of Russia's exports to that country was destined for Germany.

Source: Pasvolsky and Moulton, *op. cit.*, p. 74.

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TABLE 2—VALUE AND PERCENTAGE DISTRIBUTION OF RUSSIAN IMPORTS, BY COUNTRY AND BY SELECTED YEARS, 1894, 1903, AND 1913

Country	Imports (*Millions of Rubles*)			Percentage Distribution[a]		
	1894	1903	1913	1894	1903	1913
Central Europe[b]	176	280	709	31.3	41.1	51.6
Germany	143	242	652	25.4	35.5	47.5
The Netherlands	6	11	21	1.1	1.6	1.5
Austria Hungary	27	27	36	4.8	4.0	2.6
Western Europe[b]	190	159	256	33.8	23.3	18.6
United Kingdom	133	114	173	23.7	16.7	12.6
France	26	28	57	4.6	4.1	4.1
Italy	14	11	17	2.5	1.6	1.2
Belgium	17	6	9	3.0	0.9	0.7
Northern Europe[b]	29	41	91	5.2	6.0	6.6
Denmark	2	6	13	0.4	0.9	0.9
Norway	3	7	10	0.5	1.0	0.7
Sweden	5	5	17	0.9	0.7	1.2
Finland	19	23	51	3.4	3.4	3.7
Southeastern Europe[b]	11	10	21	2.0	1.5	1.5
Turkey	7	7	18	1.2	1.0	1.3
Romania	2	2	1	0.4	0.3	0.1
Greece	2	1	2	0.4	0.1	0.1
Near and Far East[b]	71	95	139	12.6	13.9	10.1
China	39	56	84	6.9	8.2	6.1
Iran	11	26	44	2.0	3.8	3.2
Japan	..	3	5	..	0.4	0.4
Egypt	21	10	6	3.7	1.5	0.4
North and South[b] America	48	65	80	8.5	9.5	5.8
United States	46	63	79	8.2	9.2	5.7
Brazil	2	2	1	0.4	0.3	0.1
All Others	37	32	78	6.6	4.7	5.7
Total	562	682	1374	100.0	100.0	100.0

[a] May not always add to 100.0 because of rounding.

[b] The totals in these groups include only the principal countries; the less important countries in each group are included under "All Others."

Source: Pasvolsky and Moulton, *op. cit.*, p. 74.

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APPENDIX B

HISTORICAL REVIEW OF EARLY TRADE RELATIONS OF THE UNITED STATES AND OF THE U. S. S. R.

The United States and Russia meet each other across the Pacific Ocean. While the United States expanded toward the West, Russian traders moved eastward in search of furs, trade and adventures, crossing Siberia and the Bering Sea to Alaska. The voyage of Bering in 1740 and 1741, along the American coast disclosed that the region was extremely rich in furs, which were the principal articles of export in the Russian trade with China. Naturally, the voyages made to this region resulted in the establishment of trading posts, which were extended as this trade increased. Finally, in 1799 the Russian government established a Russian-American Company to which was granted for a term of twenty years a monopoly of the trade and exclusive jurisdiction over the American coast north of the fifty-fifth degree of north latitude, with a further authority to enter into treaties with the Indians and to establish colonies south of this line wherever the territory was not already occupied by another nation, and to govern, fortify and defend its colonies.

In the meantime the "Armed Neutrality" proclaimed by the Empress Catherine II, in March, 1780 and dealing with the neutral rights of nations, was of indirect benefit to American trade. Whether neutral or belligerent, Russia attempted to keep open international trade and had the support of Sweden and Denmark. Russia opposed the control of the seas by England and did everything in her power to uphold the rights of the neutrals to trade because she depended upon their commerce since her merchant marine was practically non-existent at that time.

In 1780, Congress decided to send, as minister to Russia, Francis Dana, with instructions to propose a treaty of amity and commerce founded on principles of equality and reciprocity and for the mutual advantage of both countries. But, due to French

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objections, and to the desire of the Russian government to retain English friendship, Dana was refused a reception by the Russian Emperor. In 1799, President Adams again attempted to negotiate a treaty of amity and commerce. In the meantime, trade of the United States with Russia gradually expanded. Before the end of 1790 there were at least nineteen voyages to Russia, and trade continued vigorously for the next fifteen years. The cargo ships brought to Russia tar, turpentine, tobacco and rice from the Southern states; sugar, coffee and other products from British West India; tea, spices and pepper from the Far East. These goods were exchanged for hemp, cordage, iron and sailcloth. By 1802, there were eighty-one American vessels, largely from Salem and Boston, engaged in this highly profitable trade. After 1807, commerce had fallen off greatly, but by 1810 it had again risen to an annual value of some $4 million, and the next year it topped $6 million.[1] As early as 1794 President Washington nominated a consul to St. Petersburg. But it was only in 1809 that a Russian, Andre Dashkoff, was appointed consul general at Philadelphia and *chargé d'affaires* near the Congress of the United States.

Despite various friendly informal contacts, official diplomatic relations were not entered into by the two governments until 1809, when John Quincy Adams was confirmed by the Senate as minister to Russia. Adams's chief object was to secure Russia's help for protection of American commerce, sign a commercial treaty, and carry on negotiations for the limitation of Russian possessions on the northwest coast of North America. Russia was then in alliance with Napoleon who was attempting to enforce the Continental system from which American trade suffered, and the mediation of the Russian government effectively helped the commerce of the United States. Russia, at the time, was not particularly interested in a trade agreement with the United States; she had no discriminating duties, no colonial monopolies, and all the trade between the two countries was carried in American vessels. Russia, at that time, was deeply involved in European politics and finally was forced into war with Napoleon.

In 1821, the Russian Emperor, Alexander I, renewed the char-

[1] Cf. Dulles, *op. cit.*, p. 22.

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ter of the Russian-American Company, but negotiations proceeded with regard to limiting Russian expansion on the Pacific coast. Finally, in 1824, the United States and Russia reached an agreement with regard to the Northwest in a treaty which marked the first formal accord concluded by the two powers. The southern boundary of Russian-America was fixed at the parallel of 50° 40′, and the North Pacific was declared to be "free" (prior to that Russia claimed the North Pacific a "closed Russian sea"). The sale of firearms and liquor to the Indians was forbidden, and American vessels were granted fishing rights and trading privileges in Russian territorial waters for a period of ten years.

Following the settlement of this problem, a commercial treaty was negotiated in 1832 and ratified early in the following year. This agreement was signed on December 18, 1832. (For full text of this treaty see p. 121.) The main provisions of this treaty are summarized by Frederick L. Schuman as follows:

> The "first article of the treaty was the only one which later gave rise to serious controversy. The treaty as a whole was not unlike the usual type of commercial treaty concluded by the United States at this period. Vessels were to be treated as national vessels as regards tonnage duties, and on a most-favored-nation basis as regards all other charges (Article II). No "other or higher duties or charges" were to be imposed by either country on imports or exports conveyed in vessels of the other than on the same goods conveyed in its own vessels (Articles III-V). No other or higher duty was to be imposed by either party on imports coming from the other than was payable in like imports from other foreign countries (Article VI). Provisions were made for the maintenance of consuls, vice-consuls and commercial agents who were to be given the customary authority over disputes on their national vessels (Articles VIII-IX). The rights of the nationals of each country to dispose of property in the other were guaranteed (Article X). Article XI contained the usual conditional most-favored-nation clause. Article XII extended the treaty to the Kingdom of Poland, provided that it was to be operative until January 1, 1839, and allowed termination thereafter by one year's notification. An

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additional separate article recognized that the special commercial arrangements between Russia on the one hand and Prussia, Sweden and Norway on the other would not constitute a basis for claims of equivalent privileges between the contracting parties."[2]

The treaty of 1832 remained satisfactory to both nations for eighty years, and cordial relations were almost uninterrupted until the end of the century. Common hostility to Great Britain was probably the chief consideration between the two countries so distant and so different in all respects. The American Civil War emphasized the common anti-British feelings of the United States and Russia.

The Russian Government was reluctant to sell Alaska to the United States, but the impending bankruptcy of the Russian-American Company, the political difficulties with Great Britain, and the difficulty of holding Alaska in case of war with Great Britain finally forced the Russian government, in 1867, to sell Alaska to the United States for $7,200,000.

From 1868 to 1914, no less than nine Russian-American treaties or conventions were concluded. Five of the agreements related to commercial problems and had little or no political significance. Of these, three were designed to protect trade marks.[3]

By the end of the nineteenth century, the discrimination against Jews by the Russian government and against American Jewish citizens desiring to visit Russia and the denial of visas to them for traveling in Russia led to a number of disputes between the two countries. Early in 1911 a number of resolutions were introduced in Congress calling upon the President to denounce the treaty of 1832, on the ground that Russia had violated it by discriminating against one category of American citizens. Finally in 1911, President Taft abrogated the treaty and the Russian government was informed that in accordance with Article XII of the treaty it should cease to be operative after January, 1913. The outbreak of the First World War in 1914 prevented the signing of a new commercial agreement.

[2] Cf. Schuman, Frederick Lewis, *American Policy Toward Russia Since 1917* (International Publishers, New York, 1928), pp. 17 and 18.

[3] Cf. *Ibid.*, p. 1.

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APPENDIX C

TEXT OF THE 1832 TREATY OF NAVIGATION AND COMMERCE—RUSSIA: DECEMBER 18, 1832

Treaty of Navigation and Commerce, with separate article, signed at St. Petersburg (Leningrad) December 18, 1832 (December 6, Old Style). Original in English and French.
Submitted to the Senate February 22, 1833. Resolution of advice and consent February 27, 1833. Ratified by the United States April 8, 1833. Ratified by Russia January 8, 1833 (December 27, 1832, Old Style). Ratifications exchanged at Washington May 11, 1833. Proclaimed May 11, 1833.

In the name of the most Holy and indivisible Trinity

The United States of America, and His Majesty the Emperor of all the Russias, equally animated with the desire of maintaining the relations of good understanding, which have hitherto so happily subsisted between their respective States, and of extending, and consolidating the commercial intercourse between them, have agreed to enter into negotiations for the conclusion of a Treaty of navigation and commerce. For which purpose the President of the United States has conferred full powers on James Buchanan their Envoy Extraordinary and Minister Plenipotentiary near His Imperial Majesty; and His Majesty the Emperor of all the Russias has conferred like powers on the Sieur Charles Robert Count de Nesselrode, His Vice-Chancellor, Knight of the orders of Russia and of many others &c: and the said Plenipotentiaries having exchanged their full powers, found in good and due form, have concluded and signed the following Articles:

Article I.

There shall be between the territories of the high contracting parties, a reciprocal liberty of commerce and navigation. The inhabitants of their respective States shall, mutually, have liberty to enter the ports, places, and rivers of the territories of each party, wherever foreign commerce is permitted. They shall be at liberty to sojourn and reside in all parts whatsoever of said territories, in order to attend to their affairs, and they shall enjoy, to that effect,

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the same security and protection as natives of the country wherein they reside, on condition of their submitting to the laws and ordinances there prevailing, and particularly to the regulations in force concerning commerce.

ARTICLE II.

Russian vessels arriving either laden or in ballast, in the ports of the United States of America; and, reciprocally, vessels of the United States arriving either laden, or in ballast, in the ports of the Empire of Russia, shall be treated, on their entrance, during their stay, and at their departure, upon the same footing as national vessels, coming from the same place, with respect to the duties of tonnage. In regard to light house duties, pilotage, and port charges, as well as to the fees and perquisites of public officers, and all other duties and charges, of whatever kind or denomination, levied upon vessels of commerce, in the name or to the profit of the Government, the local authorities, or of any private establishments whatsoever, the high contracting parties shall reciprocally treat each other, upon the footing of the most favored nations, with whom they have not treaties now actually in force, regulating the said duties and charges on the basis of an entire reciprocity.

ARTICLE III.

All kinds of merchandise and articles of commerce, which may be lawfully imported into the ports of the Empire of Russia in Russian vessels, may, also, be so imported in vessels of the United States of America, without paying other or higher duties or charges, of whatever kind or denomination, levied in the name, or to the profit of the Government, the local authorities, or of any private establishments whatsoever, than if the same merchandise or articles of commerce had been imported in Russian vessels. And, reciprocally, all kind of merchandise and articles of commerce, which may be lawfully imported into the ports of the United States of America, in vessels of said States, may, also, be so imported in Russian vessels, without paying other or higher duties or charges, of whatever kind or denomination, levied in the name, or to the profit of the Government, the local authorities, or

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of any private establishments whatsoever, than if the same merchandise or articles of commerce had been imported in vessels of the United States of America.

ARTICLE IV.

It is understood that the stipulations contained in the two preceding Articles, are, to their full extent, applicable to Russian vessels, and their cargoes, arriving in the ports of the United States of America; and, reciprocally, to vessels of the said States and their cargoes, arriving in the ports of the Empire of Russia, whether the said vessels clear directly from the ports of the country to which they respectively belong, or from the ports of any other foreign country.

ARTICLE V.

All kinds of merchandise and articles of commerce, which may be lawfully exported from the ports of the United States of America in national vessels may, also, be exported therefrom in Russian vessels, without paying other or higher duties or charges, of whatever kind or denomination, levied in the name, or to the profit of the Government, the local authorities, or of any private establishments whatsoever, than if the same merchandise or articles of commerce had been exported in vessels of the United States of America. And, reciprocally, all kind of merchandise and articles of commerce, which may be lawfully exported from the ports of the Empire of Russia in national vessels, may also be exported therefrom in vessels of the United States of America, without paying other or higher duties or charges of whatever kind or denomination, levied in the name, or to the profit of the Government, the local authorities, or of any private establishments whatsoever, than if the same merchandise or articles of commerce had been exported in Russian vessels.

ARTICLE VI.

No higher or other duties shall be imposed on the importation into the United States, of any article, the produce or manufacture of Russia; and no higher or other duties shall be imposed on the importation into the Empire of Russia, of any article, the produce

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or manufacture of the United States, than are, or shall be, payable on the like article, being the produce or manufacture of any other foreign country. Nor shall any prohibition be imposed on the importation or exportation of any article the produce or manufacture of the United States, or of Russia, to, or from the ports of the United States, or to, or from the ports of the Russian Empire, which shall not equally extend to all other nations.

ARTICLE VII.

It is expressly understood that the preceding Articles II, III, IV, V, and VI shall not be applicable to the coastwise navigation of either of the two countries, which each of the high contracting parties reserves exclusively to itself.

ARTICLE VIII.

The two contracting parties shall have the liberty of having, in their respective ports, Consuls, Vice-Consuls, Agents and Commissaries of their own appointment, who shall enjoy the same privileges and powers, as those of the most favored nations; but if any such Consul shall exercise commerce, they shall be submitted to the same laws and usages to which the private individuals of their nation are submitted, in the same place.

The Consuls, Vice-Consuls, and Commercial Agents shall have the right, as such, to sit as judges and arbitrators in such differences as may arise between the Captains and crews of the vessels belonging to the nation whose interests are committed to their charge, without the interference of the local authorities, unless the conduct of the crews, or of the captain, should disturb the order or the tranquility of the Country; or the said Consuls, Vice-Consuls, or Commercial Agents should require their assistance to cause their decisions to be carried into effect or supported. It is, however, understood, that this species of judgment or arbitration shall not deprive the contending parties of the right they have to resort, on their return, to the judicial authority of their Country.

ARTICLE IX.

The said Consuls, Vice-Consuls, and Commercial Agents, are authorized to require the assistance of the local authorities, for

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the search, arrest, detention and imprisonment of the deserters from the ships of war and merchant vessels of their country. For this purpose they shall apply to the competent tribunals, judges, and officers, and shall, in writing, demand said deserters, proving by the exhibition of the registers of the vessels, the rolls of the crews, or by other official documents that such individuals formed part of the crews; and, this reclamation being substantiated, the surrender shall not be refused.

Such deserters, when arrested, shall be placed at the disposal of the said Consuls, Vice-Consuls, or Commercial Agents, and may be confined in the public prisons, at the request and cost of those who shall claim them, in order to be detained until the time when they shall be restored to the vessels to which they belonged, or sent back to their own country by a vessel of the same nation or any other vessel whatsoever. But if not sent back within four months, from the day of their arrest, they shall be set at liberty, and shall not be again arrested for the same cause.

However, if the deserter should be found to have committed any crime or offense, his surrender may be delayed until the tribunal before which his case shall be pending shall have pronounced its sentence, and such sentence shall have been carried into effect.

Article X.

The citizens and subjects of each of the high contracting parties shall have power to dispose of their personal goods within the jurisdiction of the other, by testament, donation, or otherwise, and their representatives, being citizens or subjects of the other party, shall succeed to their said personal goods, whether by testament or *ab intestato,* and may take possession thereof, either by themselves, or by others acting for them, and dispose of the same, at will, paying to the profit of the respective Governments, such dues only as the inhabitants of the country wherein the said goods are, shall be subject to pay in like cases. And in case of the absence of the representative, such care shall be taken of the said goods, as would be taken of the goods of a native of the same country, in like case, until the lawful owner may take measures for receiving them. And if a question should arise among several claimants, as

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to which of them said goods belong, the same shall be decided finally by the laws and judges of the land wherein the said goods are. And where, on the death of any person holding real estate, within the territories of one of the high contracting parties, such real estate would, by the laws of the land, descend on a citizen or subject of the other party, who by reason of alienage may be incapable of holding it, he shall be allowed the time fixed by the laws of the country, and in case the laws of the country, actually in force, may not have fixed any such time, he shall then be allowed a reasonable time to sell such real estate and to withdraw and export the proceeds without molestation and without paying to the profit of the respective Governments, any other dues than those to which the inhabitants of the country wherein said real estate is situated, shall be subject to pay, in like cases. But this Article shall not derogate, in any manner, from the force of the laws already published, or which may hereafter be published by His Majesty the Emperor of all the Russias; to prevent the emigration of his subjects.

Article XI.

If either party shall, hereafter, grant to any other nation, any particular favor in navigation or commerce, it shall, immediately become common to the other party, freely, where it is freely granted to such other nation, or on yielding the same compensation, when the grant is conditional.

Article XII.

The present treaty, of which the effect shall extend, in like manner, to the Kingdom of Poland, so far as the same may be applicable thereto, shall continue in force until the first day of January, in the year of our Lord One thousand Eight hundred and Thirty nine, and if, one year before that day, one of the high contracting parties, shall not have announced to the other, by an official notification, its intention to arrest the operation thereof, this treaty shall remain obligatory one year beyond that day, and so on, until the expiration of the year which shall commence after the date of a similar notification.

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ARTICLE XIII.

The present Treaty shall be approved and ratified by the President of the United States of America, by and with the advice and consent of the Senate of the said States, and by His Majesty the Emperor of all the Russias; and the ratifications shall be exchanged in the City of Washington within the space of one year, or sooner if possible.

In faith whereof, the respective Plenipotentiaries have signed the present treaty in duplicate and affixed thereto the seal of their arms. Done at St. Petersburg the sixth/Eighteenth December, in the year of Grace, One Thousand Eight Hundred and Thirty Two.

JAMES BUCHANAN (Seal)

SEPARATE ARTICLE

Certain relations of proximity and anterior engagements, having rendered it necessary for the Imperial Government to regulate the commercial relations of Russia with Prussia and the Kingdoms of Sweden and Norway by special stipulations, now actually in force, and which may be renewed hereafter; which stipulations are, in no manner, connected with the existing regulations for foreign commerce in general; the two high contracting parties, wishing to remove from their commercial relations every kind of ambiguity or subject of discussion, have agreed, that the special stipulations granted to the commerce of Prussia, and of Sweden and Norway, in consideration of equivalent advantages granted in these countries, by the one to the commerce of the Kingdom of Poland, and by the other to that of the Grand Duchy of Finland, shall not, in any case, be invoked in favor of the relations of commerce and navigation, sanctioned between the two high contracting parties by the present Treaty.

The present Separate Article shall have the same force & value as if it were inserted, word for word, in the Treaty signed this day, and shall be ratified at the same time.

In faith whereof, we, the undersigned, by virtue of our respec-

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tive full powers, have signed the present Separate Article, and affixed thereto the seals of our arms.

Done at St. Petersburg, the 6/18 of December, in the year of Grace, One Thousand Eight hundred & Thirty Two.

JAMES BUCHANAN (Seal)

Source: *Treaties and Other International Acts of the United States of America*, edited by Hunter Miller (Department of State, Washington, D. C., 1933), Vol. 3, Documents 41-79: 1819-35, pp. 723-40.

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APPENDIX D

DOCUMENTS RELATING TO THE CONCLUDING OF COMMERCIAL AGREEMENTS BETWEEN THE UNITED STATES AND THE U. S. S. R. SINCE JULY 13, 1935

I

Documents Relating to Commercial Agreement between the United States and the U. S. S. R.—July 13, 1935

UNITED STATES STATE DEPARTMENT PRESS RELEASE

DEPARTMENT OF STATE

FOR THE PRESS JULY 13, 1935

An agreement to facilitate and increase trade between the United States and the Union of Soviet Socialist Republics was concluded at Moscow today in an exchange of notes between Ambassador William C. Bullitt and the Commissar for Foreign Affairs, Mr. Maxim Litvinoff.

These notes provide a sound basis for a mutually beneficial expansion of trade between the United States and the Soviet Union. This agreement with the Soviet Union, although intimately related to the trade agreements program of the United States, was not concluded pursuant to the authority of the Trade Agreements Act of June 12, 1934. It does not involve any reciprocal concessions in respect of tariff rates. In return for the undertaking on the part of the Soviet Government, which controls the import and export trade of the Soviet Union, to increase substantially its purchases of American products during the next twelve months, the Government of the United States has agreed to extend to the Soviet Union, as long as the agreement remains in force, the benefits of tariff concessions granted under reciprocal trade agreements with other countries. The Soviet Government

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has given assurances that it intends to purchase in the United States during the next twelve months American goods to the value of $30,000,000. This figure represents an increase of more than 100 per cent over the value of American exports to the Soviet Union in 1934, and an increase of about 150 per cent over the average exports during the three-year period 1932 to 1934, inclusive. Our exports to the Soviet Union were valued at $12,466,000 in 1932, $8,743,000 in 1933, and $14,867,000 in 1934. On its part, the Government of the United States has extended to the Soviet Union the tariff concessions which have been granted under the trade agreements with Belgium, Haiti and Sweden, and has agreed to extend to the Soviet Union the benefits of tariff concessions made under trade agreements with other countries which may be proclaimed during the life of the present agreement. The trade agreement with Cuba is specifically excepted from this commitment.

This agreement with the Soviet Union illustrates the adaptability of the policy under which this Government is carrying out its trade agreements program. That policy, which was described at some length in the Department's press release of April 1, 1935, on the occasion of the proclamation of the trade agreement with Belgium, and is embodied in the Trade Agreements Act, is to extend the tariff concessions made under a trade agreement with a given country to all other countries which do not discriminate against American commerce or pursue policies or take actions which tend to defeat the purposes of the Trade Agreements Act. The notes exchanged and the assurances given indicate that it is the policy of the Soviet Government to pursue policies and take actions in harmony with the purpose of that Act. The fact of the existence of a state monopoly of foreign trade in the Soviet Union makes it necessary to depart somewhat from the ordinary form of trade agreement being entered into by the United States. In order to be assured of the benefits of this Government's policy of generalizing trade agreement concessions in accordance with the most-favored-nation principle, the Soviet Government has agreed to increase substantially its purchases of American goods.

This agreement is expected to result in a gratifying increase in

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the two-way trade between the United States and the Soviet Union. Our exports to the Soviet Union during the years 1926 to 1930 averaged $75,600,000 and our imports from that country averaged $16,615,000 over the same period. Our exports fell to the low point of $8,743,000 in 1933, and our imports to the low point of $9,129,000 in 1932. Although there has been some improvement in the trade since those years, it is still far below the value attained in former years. By facilitating a further expansion of this trade, the present commercial agreement should contribute in an important measure to the success of the Administration's efforts to restore our foreign trade as a whole through the trade agreements program. The objectives of this program of foreign trade recovery are the stimulation of agriculture and industry, the relief of unemployment, the raising of living standards, the improvement of the international debt situation, and the facilitation of international price and currency stability.

STATEMENT BY AMBASSADOR WILLIAM C. BULLITT AT MOSCOW IN CONNECTION WITH THE EXCHANGE OF NOTES

In connection with the trade agreements program of the Government of the United States, conversations were entered into with the Soviet Government with a view to ascertaining the attitude of the Soviet Government with regard to the expansion of trade between the United States and the Soviet Union. It is the purpose of the trade agreements program to bring about an extension of foreign markets for products of the United States by affording increased market opportunities for foreign products in the United States. In return for the assurance of the Soviet Government that it will be its policy to increase substantially its purchases of American products, the United States is prepared to extend to the Soviet Union tariff concessions granted in trade agreements with other countries. The identic notes signed today make of record and confirm this agreement.

The Government of the Union of Soviet Socialist Republics has assured the Government of the United States of America that during the twelve month period of this agreement it intends to purchase in the United States American products for export to

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the Union of Soviet Socialist Republics to the value of $30,000,000. Inasmuch as the value of the exports from the United States to the Soviet Union has averaged only $12,000,000 during the last three calendar years, the purchases contemplated by the Soviet Government will result in a very considerable increase in the exports of American goods to the Soviet Union. I hope that, as a result of the extension to the Soviet Union of tariff concessions made in trade agreements with other countries, there will be also an appreciable increase in Soviet exports to the United States, which have averaged somewhat less than $12,000,000 during the past three years. Increased imports of Soviet products into the United States will provide the Soviet Government with greater purchasing power for American products.

The present agreement, in making provision for an increase in the exchange of goods, lays down, in my opinion, a sound basis for the development of trade between the United States and the Soviet Union, and I am personally very pleased at the considerable increase in American-Soviet trade which is in prospect as a result of the notes exchanged today.

TEXT OF IDENTIC NOTES EXCHANGED JULY 13, 1935 IN MOSCOW BETWEEN THE AMBASSADOR OF THE UNITED STATES MR. WILLIAM C. BULLITT AND THE PEOPLE'S COMMISSAR FOR FOREIGN AFFAIRS OF THE U. S. S. R., MR. MAXIM LITVINOFF[1]

The American Ambassador (Bullitt) to the People's Commissar for Foreign Affairs (Litvinoff)

EMBASSY OF THE UNITED STATES OF AMERICA,

Moscow, July 13, 1935.

Excellency:

I have the honor to refer to recent conversations in regard to commerce between the United States of America and the Union of Soviet Socialist Republics and to the trade agreements program of the United States of America, and to confirm and to make of

[1] *Agreement between the United States of America and the Union of Soviet Socialist Republics,* Executive Agreement Series, No. 81 (Supt. of Documents, Washington, D. C., 1935).

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record by this note the following agreement which has been reached between the Governments of our respective countries:

1. The duties proclaimed by the President of the United States of America pursuant to trade agreements entered into with foreign governments or instrumentalities thereof under the authority of the Act entitled, "An Act to Amend the Tariff Act of 1930," approved June 12, 1934, shall be applied to articles the growth, produce, or manufacture of the Union of Soviet Socialist Republics as long as this Agreement remains in force. It is understood that nothing in this Agreement shall be construed to require the application to articles the growth, produce, or manufacture of the Union of Soviet Socialist Republics of duties or exemptions from duties proclaimed pursuant to any trade agreement between the United States of America and the Republic of Cuba, which has been or may hereafter be concluded.

2. On its part, the Government of the Union of Soviet Socialist Republics will take steps to increase substantially the amount of purchases in the United States of America for export to the Union of Soviet Socialist Republics of articles the growth, produce, or manufacture of the United States of America.

3. This Agreement shall come into force on the date of signature thereof. It shall continue in effect for 12 months. Both parties agree that not less than 30 days prior to the expiration of the aforesaid period of 12 months, they shall start negotiations regarding the extension of the period during which the present Agreement shall continue in force.

Accept, Excellency, the renewed assurances of my highest consideration.

William C. Bullitt.

His Excellency
Maxim M. Litvinov,
People's Commissar for Foreign Affairs, Moscow.

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The People's Commissar for Foreign Affairs (Litvinoff) to the American Ambassador (Bullitt)

Moscow, July "13," 1935.

Mr. Ambassador:

I have the honour to refer to recent conversations in regard to commerce between the Union of Soviet Socialist Republics and the United States of America and to the trade-agreements program of the United States of America, and to confirm and to make of record by this note the following agreement which has been reached between the Governments of our respective countries:

1. The duties proclaimed by the President of the United States of America pursuant to trade agreements entered into with foreign governments or instrumentalities thereof under the authority of the Act entitled, "An Act to Amend the Tariff Act of 1930," approved June 12, 1934, shall be applied to articles the growth, produce, or manufacture of the Union of Soviet Socialist Republics as long as this Agreement remains in force. It is understood that nothing in this Agreement shall be construed to require the application to articles the growth, produce, or manufacture of the Union of Soviet Socialist Republics of duties or exemptions from duties proclaimed pursuant to any trade agreement between the United States of America and the Republic of Cuba, which has been or may hereafter be concluded.

2. On its part, the Government of the Union of Soviet Socialist Republics will take steps to increase substantially the amount of purchases in the United States of America for export to the Union of Soviet Socialist Republics of articles the growth, produce, or manufacture of the United States of America.

3. This Agreement shall come into force on the date of signature thereof. It shall continue in effect for 12 months. Both parties agree that not less than 30 days prior to the expiration of the aforesaid period of 12 months, they shall start negotiations regarding the extension of the period during which the present Agreement shall continue in force.

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Accept, Mr. Ambassador, the renewed assurances of my highest consideration.

Maxim Litvinoff.

Mr. William C. Bullitt,
Ambassador of the United States of America, Moscow.

TEXT OF NOTES EXCHANGED REGARDING AMOUNT OF INTENDED PURCHASES BY THE U. S. S. R. UNDER THE JULY 13, 1935 AGREEMENT[2]

The American Ambassador (Bullitt) to the People's Commissar for Foreign Affairs (Litvinoff)

EMBASSY OF THE UNITED STATES OF AMERICA,
Moscow, July 11, 1935.

Excellency:

I have the honor to refer to our recent conversations in regard to commerce between the United States of America and the Union of Soviet Socialist Republics and to ask you to let me know the value of articles the growth, produce, or manufacture of the United States of America which the Government of the Union of Soviet Socialist Republics intends to purchase in the United States of America during the next twelve months for export to the Union of Soviet Socialist Republics.

Accept, Excellency, the renewed assurances of my highest consideration.

William C. Bullitt.

His Excellency
Maxim M. Litvinov,
People's Commissar for Foreign Affairs, Moscow.

[2] *Ibid.*

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The People's Commissar for Foreign Affairs (Litvinoff) to the American Ambassador (Bullitt)

Moscow, July "15," 1935.

Mr. Ambassador:

In reply to your inquiry regarding the intended purchases by the Union of Soviet Socialist Republics in the United States of America within the next twelve months, I have the honour to bring to your knowledge that according to information received from the People's Commissariat for Foreign Trade it is intended to purchase in the United States of America during the above mentioned period American goods to the value of thirty million dollars.

Accept, Mr. Ambassador the renewed assurances of my highest consideration.

Maxim Litvinoff.

Mr. William C. Bullitt,
Ambassador of the United States of America, Moscow.

II

Documents Relating to Extension of the Commercial Agreement between the United States and the U. S. S. R.— August 6, 1940

UNITED STATES STATE DEPARTMENT PRESS RELEASE

DEPARTMENT OF STATE

FOR THE PRESS AUGUST 6, 1940
No. 368

The commercial agreement between the United States of America and the Union of Soviet Socialist Republics which was proclaimed on and became effective on August 6, 1937 and which was renewed for successive periods of one year on August 5, 1938, and August 2, 1939, was continued in force for another year, that is until August 6, 1941, by an exchange of identic notes at Moscow on August 5, 1940 between the American Chargé d' Affaires ad

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interim, Mr. Walter C. Thurston, and the People's Commissar for Foreign Trade of the Soviet Union, Mr. A. I. Mikoyan.

As in the previous three agreements, the Soviet Government has informed the American Government that the Soviet economic organizations intend to purchase during the next 12 months American goods to the value of at least $40,000,000. The agreement takes into account the possibility that various export restrictions imposed by the United States in carrying out its national defense program may make it impossible for these organizations to carry out their intentions.

The Government of the United States undertakes in the agreement to continue to accord to the commerce of the Soviet Union unconditional most-favored-nation treatment, with a reservation in respect of coal, deemed necessary because of the nature of the coal-tax provisions of the Revenue Act of 1932. Under this agreement, therefore, the Soviet Union will continue to receive the benefits of concessions granted by the United States in trade agreements with countries other than Cuba entered into under the authority of the Trade Agreements Act.

The Soviet Government has renewed in a note accompanying the agreement its commitment to export to the United States in the next 12 months not more than 400,000 tons of Soviet coal which was approximately the quantity of Soviet coal exported to the United States in the calendar year 1936. While there were imports of coal during each of the first three agreement years, such imports did not in any such year amount to as much as one-half the 400,000-ton limitation. Since October, 1939 there have been no imports of Soviet coal.

The following table gives the value in dollars of United States exports to and imports from the Soviet Union in the agreement years.

Agreement Year (August-July)	*United States Domestic Exports to U.S.S.R*	*United States Imports for Consumption from U.S.S.R.*
	(Thousands of U. S. Dollars)	
1935-36	33,286	21,200
1936-37	31,018	23,240
1937-38	64,224	22,874
1938-39	50,255	24,761
1939-40[1]	67,779	23,916

[1] Preliminary—first 11 months.

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TEXT OF IDENTIC NOTES EXCHANGED AUGUST 5, 1940 AT MOSCOW BETWEEN THE CHARGÉ D'AFFAIRES AD INTERIM OF THE UNITED STATES, MR. WALTER C. THURSTON AND THE PEOPLE'S COMMISAR FOR FOREIGN TRADE OF THE U. S. S. R., MR. A. I. MIKOYAN

Moscow, August 6, 1940.

His Excellency
A. I. Mikoyan
People's Commissar for Foreign Trade,
Moscow.

Excellency:

In accordance with the conversations which have taken place, I have the honor to confirm on behalf of my Government the agreement which has been reached between the Governments of our respective countries that the agreement regarding commercial relations between the United States of America and the Union of Soviet Socialist Republics recorded in the exchange of notes of August 4, 1937, between the Ambassador of the United States of America and the People's Commissar for Foreign Affairs of the Union of Soviet Socialist Republics, which came into force on August 6, 1937 on the date of proclamation thereof by the President of the United States of America and approval thereof by the Council of People's Commissars of the Union of Soviet Socialist Republics, and which was renewed on August 5, 1938, and August 2, 1939, shall continue in force until August 6, 1941. The present agreement should be proclaimed by the President of the United States of America and approved by the Council of People's Commissars of the Union of Soviet Socialist Republics.

Accept, Excellency, the renewed assurances of my highest consideration.

Walter C. Thurston
Chargé d'Affaires ad interim
of the United States of America

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TEXT OF THE 1937 AGREEMENT

With reference to recent conversations which have taken place in regard to commerce between the United States of America and the Union of Soviet Socialist Republics, I have the honor to confirm and to make of record by this note the following agreement which has been reached between the Governments of our respective countries:

One. The United States of America will grant to the Union of Soviet Socialist Republics unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and charges of every kind and in the method of levying duties, and, further, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the customs, and with respect to all laws or regulations affecting the sale or use of imported goods within the country.

Accordingly, natural or manufactured products having their origin in the Union of Soviet Socialist Republics shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territory of the United States of America and consigned to the territory of the Union of Soviet Socialist Republics shall in no case be subject with respect to exportation and in regard to the above-mentioned matters, to any duties, taxes, or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products when consigned to the territory of any third country are or may hereafter be subject.

Any advantage, favor, privilege or immunity which has been or may hereafter be granted by the United States of America in regard to the above-mentioned matter, to a natural or manufactured product originating in any third country or consigned to the territory of any third country shall be accorded immediately and without compensation to the like product originating in

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or consigned to the territory of the Union of Soviet Socialist Republics.

It is understood that so long as and in so far as existing law of the United States of America may otherwise require, the foregoing provisions, in so far as they would otherwise relate to duties, taxes or charges on coal, coke manufactured therefrom, or coal or coke briquettes, shall not apply to such products imported into the United States of America. If the law of the United States of America shall not permit the complete operation of the foregoing provisions with respect to the above-mentioned products, the Union of Soviet Socialist Republics reserves the right within fifteen days after January 1, 1938, to terminate this agreement in its entirety on thirty days' written notice.

It is understood, furthermore, that the advantage now accorded or which may hereafter be accorded by the United States of America, its territories or possessions, the Philippine Islands, or the Panama Canal Zone to one another or to the Republic of Cuba shall be excepted from the operation of this agreement.

Nothing in this agreement shall be construed to prevent the adoption of measures prohibiting or restricting the exportation or importation of gold or silver, or to prevent the adoption of such measures as the Government of the United States of America may see fit with respect to the control of the export or sale for export of arms, ammunition, or implements of war, and, in exceptional cases, all other military supplies. It is understood that any action which may be taken by the President of the United States of America under the authority of Section 2(b) of the Neutrality Act of 1937 in regard to the passage of title to goods shall not be considered as contravening any of the provisions of this agreement relating to the exportation of natural or manufactured products from the territory of the United States of America.

Subject to the requirement that no arbitrary discrimination shall be effected by the United States of America against importations from the Union of Soviet Socialist Republics and in favor of those from any third country, the foregoing provisions shall not extend to prohibitions or restrictions (1) imposed on moral or humanitarian grounds, (2) designed to protect human, animal,

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or plant life, (3) relating to prison-made goods, or (4) relating to the enforcement of police or revenue laws.

Two. On its part the Government of the Union of Soviet Socialist Republics will take steps to increase substantially the amount of purchases in the United States of America for export to the Union of Soviet Socialist Republics of articles the growth, produce, or manufacture of the United States of America.

Three. This agreement shall come into force on the day of proclamation thereof by the President of the United States of America and of approval thereof by the Soviet of People's Commissars of the Union of Soviet Socialist Republics, which proclamation and approval shall take place on the same day. It shall continue in effect for twelve months. Both parties agree that not less than thirty days prior to the expiration of the aforesaid period of twelve months they shall start negotiations regarding the extension of the period during which the present agreement shall continue in force.

TEXT OF COMMUNICATIONS CONCERNING THE AMOUNT OF PURCHASES WHICH THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS INTENDS TO MAKE IN THE UNITED STATES DURING THE NEXT TWELVE MONTHS IN CONNECTION WITH THE COMMERCIAL AGREEMENT ENTERED INTO BETWEEN THE UNITED STATES AND THE SOVIET UNION ON AUGUST 6, 1940

The American Chargé d'Affairs ad interim (Thurston) to the People's Commissar for Foreign Trade (Mikoyan).

Moscow, August 6, 1940.

His Excellency
A. I. Mikoyan
People's Commissar for Foreign Trade,
Moscow.

Excellency:

I have the honor to refer to our recent conversations in regard to the commerce between the United States of America and the Union of Soviet Socialist Republics and to ask you to let me know

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the value of articles, the growth, produce or manufacture of the United States of America, which the Government of the Union of Soviet Socialist Republics intends to purchase in the United States of America during the next twelve months for export to the Union of Soviet Socialist Republics.

Accept, Excellency, the renewed assurances of my highest consideration.

Walter C. Thurston
Chargé d'Affaires ad interim
of the United States of America

The People's Commissar of Foreign Trade (Mikoyan) to the American Chargé d'Affairs ad interim (Thurston)

Moscow, August 6, 1940

Mr. Walter C. Thurston
Chargé d'Affairs ad interim of the
United States of America,
Moscow.

Mr. Chargé d'Affaires:

In reply to your inquiry regarding the intended purchases by the Union of Soviet Socialist Republics in the United States of America in the course of the next twelve months, I have the honor to inform you that the economic organizations of the Union of Soviet Socialist Republics intend to buy in the United States of America in the course of the next twelve months American goods to the value of at least $40,000,000.

If, however, restrictions imposed on exports by the Government of the United States should render it difficult for Soviet economic organizations to satisfy their needs in the United States, it may be impossible for these organizations to carry out their intentions. The Government of the Union of Soviet Socialist Republics is therefore not in a position at the present time to guarantee the above-mentioned value of its purchases in the United States.

Accept, Mr. Chargé d'Affaires, the renewed assurances of my highest consideration.

A. Mikoyan.

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III

Documents Relating to Extension of the Commercial Agreement between the United States and the U. S. S. R.—August 4, 1941

UNITED STATES STATE DEPARTMENT PRESS RELEASE

DEPARTMENT OF STATE

FOR THE PRESS AUGUST 4, 1941
No. 378

The commercial agreement between the United States of America and the Union of the Soviet Socialist Republics which was proclaimed on and became effective on August 6, 1937 and which was renewed for successive periods of one year on August 5, 1938, August 2, 1939, and August 6, 1940, was continued in force for another year, that is, until August 6, 1942, by an exchange of identic notes at Washington on August 2, 1941 between the Acting Secretary of State of the United States of America, Mr. Sumner Welles, and the Ambassador of the Union of Soviet Socialist Republics, Mr. Constantine A. Oumansky.

Although it is expected that in the coming year the character and amount of United States trade with the Soviet Union will be governed largely by the defense needs of the United States and of the Soviet Union and other countries struggling against the forces of armed aggression, rather than by the usual commercial considerations, the exchange of notes will ensure the continuance during the emergency period of our established commercial relations with the Soviet Union on the basis of the 1937 commercial agreement.

The following table gives the value in dollars of exports to and imports from the Soviet Union in the agreement years.

Agreement Year (Beginning August)	*United States Domestic Exports to U.S.S.R*	*United States Imports for Consumption from U.S.S.R.*
	(Thousands of U. S. Dollars)	
1935-36	33,286	21,200
1936-37	30,987	23,240
1937-38	64,338	22,874
1938-39	50,160	24,739
1939-40	73,636	24,773
1940-41[1]	57,481	22,710

[1] Preliminary data for the 10 months, August, 1940, through May, 1941. Source: Official records of the United States Department of Commerce.

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TEXT OF IDENTIC NOTES EXCHANGED AUGUST 2, 1941 AT WASHINGTON BETWEEN THE ACTING SECRETARY OF STATE OF THE UNITED STATES OF AMERICA, MR. SUMNER WELLES, AND THE AMBASSADOR EXTRAORDINARY AND PLENIPOTENTIARY OF THE U. S. S. R., MR. CONSTANTINE A. OUMANSKY

Washington, August 2, 1941.

His Excellency
Constantine A. Oumansky
Ambassador of the Union of
Soviet Socialist Republics.

Excellency:

In accordance with the conversations which have taken place, I have the honor to confirm on behalf of my Government the agreement which has been reached between the Governments of our respective countries that the agreement regarding commercial relations between the United States of America and the Union of Soviet Socialist Republics recorded in the exchange of notes of August 4, 1937 between the Ambassador of the United States of America at Moscow and the People's Commissar for Foreign Affairs of the Union of Soviet Socialist Republics, which came into force on August 6, 1937, on the date of proclamation thereof by the President of the United States of America and approval thereof by the Council of People's Commissars of the Union of Soviet Socialist Republics and which was renewed on August 5, 1938, August 2, 1939, and August 6, 1940 shall continue in force until August 6, 1942.

The present agreement shall be proclaimed by the President of the United States of America and approved by the Council of People's Commissars of the Union of Soviet Socialist Republics.

Accept, Excellency, the renewed assurances of my highest consideration.

Sumner Welles
Acting Secretary of State
of the United States of America

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PROCLAMATION OF EXTENSION OF COMMERCIAL AGREEMENT BETWEEN THE UNITED STATES AND THE U. S. S. R.

DEPARTMENT OF STATE

FOR THE PRESS August 14, 1941
No. 395

On August 6, 1941, the President issued his proclamation of the Agreement effected by an exchange of notes dated August 2, 1941 by the Acting Secretary of State and the Soviet Ambassador extending until August 6, 1942 the Agreement concerning commercial relations between the United States of America and the Union of Soviet Socialist Republics, signed on August 4, 1937 and extended annually in August 1938, 1939, and 1940. (See Press Statement No. 380, August 4, 1941). The Agreement of August 2, 1941 was approved by the Council of the People's Commissars on August 4, 1941.

IV

Documents Relating to Extension of the Commercial Agreement between the United States and the U. S. S. R.— July 31, 1942

UNITED STATES STATE DEPARTMENT PRESS RELEASE[1]

Agreement with the Soviet Union

(Released to the press July 31)

The commercial agreement between the United States of America and the Union of Soviet Socialist Republics, which was proclaimed on and became effective on August 6, 1937 and which was renewed for successive periods of one year on August 5, 1938, August 2, 1939, August 6, 1940, and August 2, 1941, was continued in force by an exchange of identic notes at Washington on July 31, 1942 between the Secretary of State of the United States of

[1] *Bulletin*, U. S. Department of State, August 1, 1942, p. 662.

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America, Mr. Cordell Hull, and the Ambassador of the Union of Soviet Socialist Republics, Mr. Maxim Litvinoff. The notes provide that the agreement shall remain in force until August 6, 1943 and thereafter, unless superseded by a more comprehensive commercial agreement, subject to termination on six months' written notice by either Government.

Although it is expected that in the coming year the character and amount of United States trade with the Soviet Union will be governed largely by the military requirements of the United States and of the Soviet Union and other countries struggling against the forces of armed aggression, rather than by the usual commercial considerations, the exchange of notes will insure the continuance during the emergency period of our established commercial relations with the Soviet Union on the basis of the 1937 commercial agreement.

The text of the identic notes exchanged on July 31 follows:

"Washington, July 31, 1942

"In accordance with the conversations which have taken place, I have the honor to confirm on behalf of my Government the agreement which has been reached between the Governments of our respective countries that the agreement regarding commercial relations between the United States of America and the Union of Soviet Socialist Republics recorded in the exchange of notes of August 4, 1937, which came into force on August 6, 1937, and which was renewed on August 5, 1938, August 2, 1939, August 6, 1940, and August 2, 1941 shall remain in force until August 6, 1943. It shall continue in force thereafter, unless superseded by a more comprehensive commercial agreement, subject to termination on six months' written notice by either Government.

"The present agreement shall be proclaimed by the President of the United States of America and approved by the Council of People's Commissars of the Union of Soviet Socialist Republics.

"Accept (etc.)"

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APPENDIX E

LIST OF INDIVIDUAL COMMODITIES IMPORTED INTO THE UNITED STATES FROM THE U. S. S. R., 1925-1941[1]

1. Alsinthium
2. Althea root
3. Anatomical preparations
4. Andesite
5. Ant eggs
6. Apatite
7. Apples, preserved
8. Art works
9. Asbestos
10. Badger down
11. Barytes
12. Beans
13. Beeswax
14. Belladonna leaves
15. Berries
16. Beryl ore
17. Birch tar oil
18. Biscuits
19. Black currant pulp
20. Books
21. Boots and shoes
22. Bristles
23. Buckthorn bark
24. Bulbs, flower
25. Calcium carbide
26. Camomile flowers
27. Canary seed
28. Candy
29. Cantharides
30. Caraway seed
31. Caustic soda
32. Caviar
33. Cedar nut oil
34. Ceresin
35. Chalk
36. Charcoal
37. Chemicals
38. Chrome concentrate
39. Cigarettes
40. Coal, anthracite
41. Confectionery
42. Coriander seed
43. Cotton cloth
44. Cow hair
45. Crab meat
46. Cranberry extract
47. Crash towels
48. Dandelion root
49. Digitalis leaves
50. Elder flowers
51. Elecampane root
52. Embroideries
53. Ergot of rye
54. Fennel seed
55. Fertilizers
56. Field bones
57. Fish, canned
58. Fish, fresh
59. Fish, frozen
60. Fish meal
61. Fish scales
62. Flax and tow
63. Formic acid
64. Fruits
65. Fruit butter
66. Fuller's earth
67. Furs, dressed and undressed
68. Gelatine
69. Geranium oil
70. Glass and glassware

[1] Source: Valery J. Tereshtenko, *American-Soviet Trade Relations: Past and Future*, Russian Economic Institute, Pamphlet Series No. 5, 1945, pp. 16-17.

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71. Glue and fish glue
72. Glycerine
73. Goat skins
74. Gum tragacanth
75. Hair, animal
76. Halvah
77. Handicraft products
78. Hemp
79. Henbane
80. Herring
81. Hops
82. Horsehair
83. Huckleberries, dried, pulp
84. Infusorial earth
85. Iron and steel manufactures
86. Iron ore
87. Iridium
88. Jams
89. Jellies
90. Juniper berries
91. Kaolin
92. Kephyr mushrooms
93. Knit wear
94. Labradorite
95. Laths
96. Leather
97. Lentils
98. Licorice root
99. Linden flowers
100. Linen, linen crash
101. Lumber, sawn
102. Lycopodium
103. Magnesite
104. Malt extract
105. Manganese
106. Marble and chips
107. Marmalades
108. Matches
109. Meats
110. Medicinal materials
111. Mica, scrap
112. Mineral waters
113. Motion picture films
114. Mushrooms
115. Mustard, ground
116. Mustard seed
117. Nicotine sulphate
118. Nuts: Walnuts
119. Almonds
120. Filberts
121. Pistachio
122. Oak boards
123. Oak logs
124. Oak staves
125. Oakum, tarred
126. Oil seeds
127. Oil, vegetable
128. Paper
129. Paraffin wax
130. Parsley seed
131. Pearl essence
132. Peas
133. Peat, peat moss
134. Peppers, sweet
135. Peppermint oil
136. Phonograph records
137. Pickles
138. Pine needle oil
139. Pitch
140. Playing cards
141. Platinum
142. Plywood
143. Poke root
144. Poppy seed
145. Potash
146. Potassium bromide salts
147. Potato flour
148. Pottery
149. Poultry
150. Pulpwood
151. Pumice stone
152. Pumpkin seeds
153. Pyrites
154. Quince seed
155. Radium
156. Rags
157. Raisins
158. Raspberry pulp
159. Rhodium
160. Rock crystal salt
161. Rubber articles
162. Rugs
163. Rye malt
164. Samovars

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165. Sandpaper
166. Santonin
167. Sauces
168. Sausage casings
169. Seal skins
170. Seeds n.e.s.
171. Sheep skins
172. Silk apparel
173. Silk, raw and waste
174. Slippers
175. Sodium hydrosulphite-formaldehyde
176. Stearin
177. Strawberry pulp
178. Sugar beet seed
179. Sulphichton
180. Sunflower seeds
181. Sunflower seed oil
182. Talcum, etc.
183. Tar, pine
184. Tobacco
185. Tomatoes, canned
186. Tomato paste
187. Toys
188. Turpentine
189. Urtite
190. Valerian root
191. Vegetables, canned
192. Veneer, birch
193. Vetches
194. Watch parts
195. Wheat
196. Willow twigs
197. Witherite
198. Wooden manufactures
199. Woodpulp
200. Woolen wearing apparel
201. Yarn, tow
202. Anise seed

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INDEX

A

Agricultural products, Russian exports of, values and per cent of total exports, 1909-1937, 72
United States lend-lease shipments of to Russia, value of, cumulative to July, 1945, 104
Aircraft and parts, United States lend-lease shipments to Russia, value of, cumulative to July, 1945, 104
All Russian Textile Syndicate, 61, 80, 97
American-Russian Chamber of Commerce, 45, 97
American-Russian, political and economic relations, 75-88
American-Russian trade, commodities imported from Russia by the United States, 1925-1941, list of, 147-149
types of commodities traded, 96
United States exports to Russia, value and percentage distribution of, by groups of commodities, 1937-1940, 101; January-June, 1945, 105; by types of commodities, 1940-1941, 103; value of total, 1915-1942, 90-91; value of and per cent of total United States exports, 1910-1942, 91; value of, by trade-agreement years, 1935-36, through 1939-40, 137; through 1940-41, 143
United States imports from Russia, value and per cent of total United States imports, 90-91; value and percentage distribution, by types of commodities, 1937-1940, 99; by groups of commodities, January-June, 1945, 106; value of by trade-agreement years, 1935-36 through 1939-40, 137; through 1940-41, 143
United States trade with Russia in relation to total United States foreign trade, 93-94; to total Russian foreign trade, 94
United States lend-lease shipments to Russia, value of, by major groups, cumulative to July, 1945, 104
volume of, before World War I, 89; during and after World War I, 1915-1942, 90
American-Russian trade relations, commercial agreements, documents relating to, since July, 1935, 129-146
historical review of early, 117-120
treaty of Navigation and Commerce, 1832, text of, 121-127
special trade agreement, 1935, 85
post-recognition period, 83
pre-recognition period, 76
role of American oil interests in, 82
Amtorg Trading Corporation, 44, 79, 83
Anglo-Russian Timber Company, 41
Animal Products, United States imports of from Russia, value of 1937-1940, 99; January-June, 1945, 106
Apostle, Paul N., 6, 7
Arcos, Ltd., 44, 79
Austro-Russian Trading Company, 41

B

Bakulin, S. N., 65, 66, 68, 71
Balance of Payments of the U. S. S. R., 1935 and 1936, 51-53; of trade, 1909-1938, 65
Banking operations, Russian for financing foreign trade, 49
de Basili, Nikolai, 53
Bernatzky, Michael, W., 6, 7
Bettelheim, Charles, 60
Bogolepov, M., 19
Briand, Kellogg Pact, 79
Bullitt, William C., 84, 129, 132, 135
Burrows, Raymond, 33

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C

Capital, major sources of in Soviet economy, 18
Chemicals and related products, United States imports of from Russia, value and per cent of total imports, 1937-1940, 99; January-June, 1945, 106
Commercial Agreements, types of Russian with foreign countries, 57, 58
United States with Russia, 1935 agreement, text of notes exchanged concerning, 132; of notes regarding amount of Russian purchases under, 135; statement of William C. Bullitt concerning, 131
1937 agreement, text of, 139-141; documents relating to extension of, 136
1940 agreement, text of notes regarding extension of, 1941, 144; July, 1942, 145; text of notes exchanged regarding amount of Russian purchases under, 141
Committee on Russian-American Relations, 59, 81, 83
Commodities exported to the United States, 1925-1941, list of, 147-149
Concessions, use of in Soviet economy, 60; list of Russian, 80
Conolley, Violet, 62
Coolidge, Calvin, 78
Currency Laws of Russia, 49

D

Dana, Francis, 117
Dobbs, Maurice H., 10
Dulles, Foster Rhea, 77, 79, 84, 89

E

Economic Concepts in Soviet Russia, 16-22
capital accumulation, 18
finances and money, 20
foreign trade, role of, 22, 23-53; financing of, 45-46; monopoly of by state, 25-32
national budget, role of, 20
prices and allocation of factors of production, 16
taxation, 18
Egg Export Company, The, 41
Export planning in Soviet economy, 34-38
Exports, Russian, agricultural products, value and per cent of total, 1909-1937, 72
animals, live, value of as per cent of total exports, 1894-1913, 3
commodities exported to the United States, 1925-1941, list of, 147-149
composition of, major classes as per cent of total, 1894-1913, 3
foodstuffs, per cent of total exports, 1894-1913, 3
geographic distribution of total, value and per cent distribution by areas, 1894-1913, 3, 4; by countries, 1894-1913, 115; percentage distribution, by countries, 1924-1938, 30, 31
grains, volume of by types, by 5-year periods, 1909-1937, 73; index of, 74
industrial products, value and per cent of total exports, 1909-1937, 72
manufactured goods, per cent of total exports, 1894-1913, 3
raw and semi-manufactured goods, per cent of total exports, 1894-1913, 3
total, value of as per cent of world total, 1909-1938, 63; volume of, 1909-1938, 66; percentage distribution of between raw materials and manufactured goods, 1913-1936, 72; value and percentage distribution of, between agricultural and industrial products, 1909-1937, 72; value and annual percentage change in, 1913-1917, 8; value and percentage distribution of, by geographic areas, 1894-1913, 3, 4; by countries, 1894-1913, 115; percentage distribution by countries, 1924-1938, 30, 31
to United States, total, value of, 1915-1942, 90; as per cent of U. S. total imports, 1910-1942, 91; as per cent of total Russian exports, 1924-1938, 30, 31, 94; 1894-1913, 115; value and percentage distribution, by groups of commodities, 1937-1940, 99; January-June, 1945, 106; value, by trade-agreeement years, 1935-36 through 1939-40, 137; through 1940-41, 143
Exports, United States to Russia, total, value of as per cent of U. S. total exports, 1910-1942, 90, 91; as per cent of total Russian imports, 1926-1938, 94

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groups of commodities, by, value and percentage distribution by, 1937-1940, 101; January-June, 1945, 105
lend-lease shipments, value by major groups, cumulative to July, 1945, 104
machinery equipment, value of total U. S., and total to Russia as per cent of total U. S. exports of, 1929-1934, 97
trade-agreement years, by, value of total, 1935-36 through 1939-40, 137; through 1940-41, 103

F

Financial Plan, The, in Soviet economy, 20
Financing Foreign Trade in the U. S. S. R., 45
First Five-Year Plan, objectives of, 15; foreign-trade policy under, 42
Fischer, Louis, 77, 82
Five-Year Plans, first, second, and third, objective of, 15
Florinsky, Michael T., 19
Foodstuffs, Russian imports and exports of, 1894-1913, 3; imports of as per cent of total imports, 1929-1937, 67, 71
Foreign-Currency planning in the U. S. S. R., 45
Foreign indebtedness of Russia, 62; prior to World War I, 5
Foreign-Trade monopoly in Soviet Economy, advantages and disadvantages of, 32-34
economic and political bases of, 25-32
organizational forms of, 38-45
tariffs in relation to, 55
Foreign trade in Soviet Economy, economic and political bases for foreign-trade monopoly, 25-32
banking operations for financing, 49
commercial agreements and, 57
concessions, use of, 60
evolution of organizational forms of, 38-45
decree of People's Commissars nationalizing, 23-24
financing, 45
foreign indebtedness of the U. S. S. R. in relation to, 62
general principles of, 23-53
policies concerning, economic and political, 54-74
policy towards, with the East, 61
position of Russia in world trade, 1911-1938, 64
role of, in total Soviet economy, 22
Friedman, Elisha M., 78

G

Ginzburg, T. S., 68
Gosplan, The, market control under, 15; four main departments of, and their operation, 10-22
Gostorg, export and import board, 41
Grain exports, volume of Russian, by kinds, 1909-1937, 73, 74
Granovskii, E. L., 16

H

Haensel, Paul, 56, 57
Harding, Warren G., 77
Heilperin, M. A., 33
Hoot, J. Weldon, 14
Hoover, Herbert, 77
Hull, Cordell, 146

I

Import planning in Soviet economy, 34-38
Imports, Russian, animals, live, per cent of total Russian imports, 1894-1913, 3
changes in, 1913-1917, 8
commodities by, value and percentage distribution by, 1929-1937, 69, 71; value of, from U. S., 1940-1941, 103
capital goods, value and per cent of total, 1909-1937, 68, 71
consumer's goods, value and per cent of total, 1909-1937, 68, 71

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countries, by, value and percentage distribution by, selected years, 1894-1913, 116; selected countries, 1924-1938, 30, 31
foodstuffs, per cent of total imports, 1894-1913, 3
geographic distribution of, value and percentage distribution, by regions, 1894-1913, 3, 4; percentage distribution by countries, 1924-1938, 30, 31
machinery equipment, value of, from U. S., as per cent of U .S. total machinery-equipment exports, 1927-1937, 97
manufactured goods, per cent of total imports, 1894-1913, 3
raw and semi-manufactured goods, per cent of total imports, 1894-1913, 3
tariffs in relation to, 56
total, value of, 1909-1938, 65; volume of, 1909-1938, 66; value of as per cent of world imports, 1911-1938, 63; value of, from U. S. as per cent of total Russian imports, 94; value, U. S. 1915-1942, 90
United States, from, total, value of, 1915-1942, 90; value and per cent of total Russian imports, 1926-1938, 94; as per cent of total U. S. exports, 1910-1942, 91; by commodity groups, value and percentage distribution by, 1937-1940, 101; January-June, 1945, 105; lend-lease shipments from U. S., value of, by major groups, cumulative to July, 1945, 104; machinery equipment, value of as per cent of U. S. total machinery-equipment exports, 1929-1934, 97; types of commodities, value by, 1940-1941, 103
Imports, United States from Russia
commodities imported from Russia, 1925-1941, list of, 147-149
commodity groups, value and percentage distribution by, 1937-1940, 99; January-June, 1945, 106
total, as per cent of U. S. total imports, 1910-1942, 90, 91; value and per cent of total Russian exports, 1926-1938, 94; by trade-agreement years, value, 1935-36 through 1939-40, 137; through 1940-41, 143
Imports, world total, 1911-1938, 63
Industrial products, Russian exports of, value and per cent of total exports, 1909-1937, 72; U. S. lend-lease shipment of, to Russia, value of, cumulative to July, 1945, 104

K

Kozlov, G. A., 26, 55

L

Leather Syndicate, 41
Lend-Lease, U. S. shipments to Russia under, value of, by major groups, cumulative to July, 1945
Lenin, Vladimir I., 38, 60
Litvinoff, Maxim M., 84, 129, 132, 135
Live animals, Russian imports and exports of, 1894-1913, 3; Russian imports of as per cent of total imports, 1929-1937, 69, 71
Loucks, William N., 14
Lyubimov, N., 60

M

Machinery equipment, U. S. exports of to Russia, 1929-1934, 97
Machinery and vehicles, U. S. imports of from Russia, value, January-June, 1945, 106
Manufactured goods, Russian exports and imports of, 1894-1913, per cent of total, 3; Russian imports of, 1929-1937, value as per cent of total, 69, 71
Marcus, B. L., 16
Martens, Ludwig, C. A. K., 76
Metals and manufactures, U. S. imports from Russia, value of, 1937-1940, 99; value, January-June, 1945, 106
Michelson, Alexander M., 6, 7
Mikoyan, A. I., 138, 141
Miller, Hunter, 128
Mishustin, D. D., 65, 66, 68, 71
Money, function of in Soviet economy, 20

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Moore, Harriet, 89
Motor vehicles and parts, U. S. lend-lead shipments to Russia, value of, cumulative to July, 1945, 104
Moulton, Harold G., 3, 5, 115
Munitions, U. S. lend-lease shipments to Russia, value of all kinds, cumulative to July, 1945, 104

N

Naphtha Syndicate, 41
National budget, the, in Soviet economy, 20
New Economic Policy (N.E.P.), planning under, 10; foreign trades under, 40, 41
Non-metallic minerals, U. S. imports from Russia, value of, 1937-1940, 99; January-June, 1945, 106

O

Ordnance and ammunition, U. S. lend-lease shipments to Russia, value of, cumulative to July, 1945, 104
Oumansky, Constantine A., 143, 144

P

Pasvolsky, Leo, 3, 5, 115
People's Commissariat of Foreign Trade, functions of, 42, 43
Petroleum products, U. S. lend-lease shipments to Russia, value of, cumulative to July, 1945, 104
Planning in Soviet economy, export and import planning, 34-38, 47
  favorable factors for, 12
  foreign-currency planning, 45
  materials used in, 13
  objectives, relating plan to, 15; of five-year plans, 15
  procedure in, 10; for checking performance, 13
  unfavorable factors for, 13
Prices, function of in Soviet economy, 16
Products Exchange Corporation, 79

R

Rapallo, Treaty of, 59
Raw and semi-manufactured goods, Russian imports and exports of, 1894-1913, 3; imports as a per cent of total imports, 1929-37, 69, 71
Revenue Act of 1932, 87
Ropes, E. C., 24, 58, 63, 72, 88, 103
Russian-American Company, The, 117
Russian-American political and economic relations, 75-88
Russian-American Relations, Committee on, 59, 81, 83
Russian-American trade, *see* American-Russian
Russian-Dutch Timber Company, 41
Russian Economic System, *see* Soviet Economic System
Russian exports and imports, *see* exports and imports Russian
Russian foreign indebtedness, prior to World War I, 5
  foreign trade before 1914, 1-9
  imports and exports, changes in, 1913-1917, 8; composition of, 1894-1913, 3; geographical distribution of, 1894-1913, 3; pre-1914 character of, 2; as a per cent of world imports and exports, 1911-1938, 63
  war debts to principal allied nations, as of October, 1917, 6
Russo-Germany Trading Company, 41

S

Schuman, Frederick L., 75, 76, 80, 119
Second Five-Year Plan, objectives of, 15
Soviet-American Security Corporation, 83
Soviet economic system, the, economic concepts of, 16-22; organization of, 10-22
Soviet-Polish Trading Company, The, 41
Stalin, Joseph, 93
Stefanov, N., 52

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T

Tanks and parts, U. S. lend-lease shipments to Russia, value of, cumulative to July 1, 1945, 104
Tariffs, Russian, purpose and use of, 55; normal rates, by commodities, 57
Taxation in Soviet economy, the turnover tax, 18; revenue from, 1931-1938, 19; other taxes, 19
Technical-aid contracts, nature and use of in Soviet economy, 60
Tereshtenko, Valery J., 147
Textile fibers and manufactures, U. S. imports from Russia, value of, January-June, 1945, 106; 1937-1940, 99
Third Five-Year Plan, objectives of, 15
Thurston, Walter C., 137, 138
Trade agreements, *see* commercial agreements
Trade-agreements Act, The, 58, 87
Trade relations, American-Russian, pre-recognition period, 76-83; since recognition, 83-88
Trade Treaties, Russian, types of, 58
Treaty of Navigation and Commerce of 1832, text of, 121-127
Treaty of Rapallo, 59
Turnover tax, the, in Soviet economy, 18; revenue from 1931-1938, 19

V

Valuta Plan, The, 36, 46
Vegetable products, U. S. imports from Russia, value of 1937-1940, 99; January-June, 1945, 106
Vneshtorg bank, 50

W

War debts, Russian, amount and per cent distribution, principal Allied Nations, October, 1917, 6
Water Craft, U. S. lend-lease shipments to Russia, value of, cumulative to July 1, 1945, 104
Wells, Sumner, 144
Wood and paper, U. S. imports from Russia, value of, 1937-1940, 99; January-June, 1945, 106
World trade, total, value of, 1911-1938, 63
  of Soviet Russia, 54-75
  Russia's position in, 1911-1938, 64

Y

Yanson, J. D., 29, 42, 44
Yugow, A., 20, 34, 65, 66

Z

Zhirmunskii, M., 39

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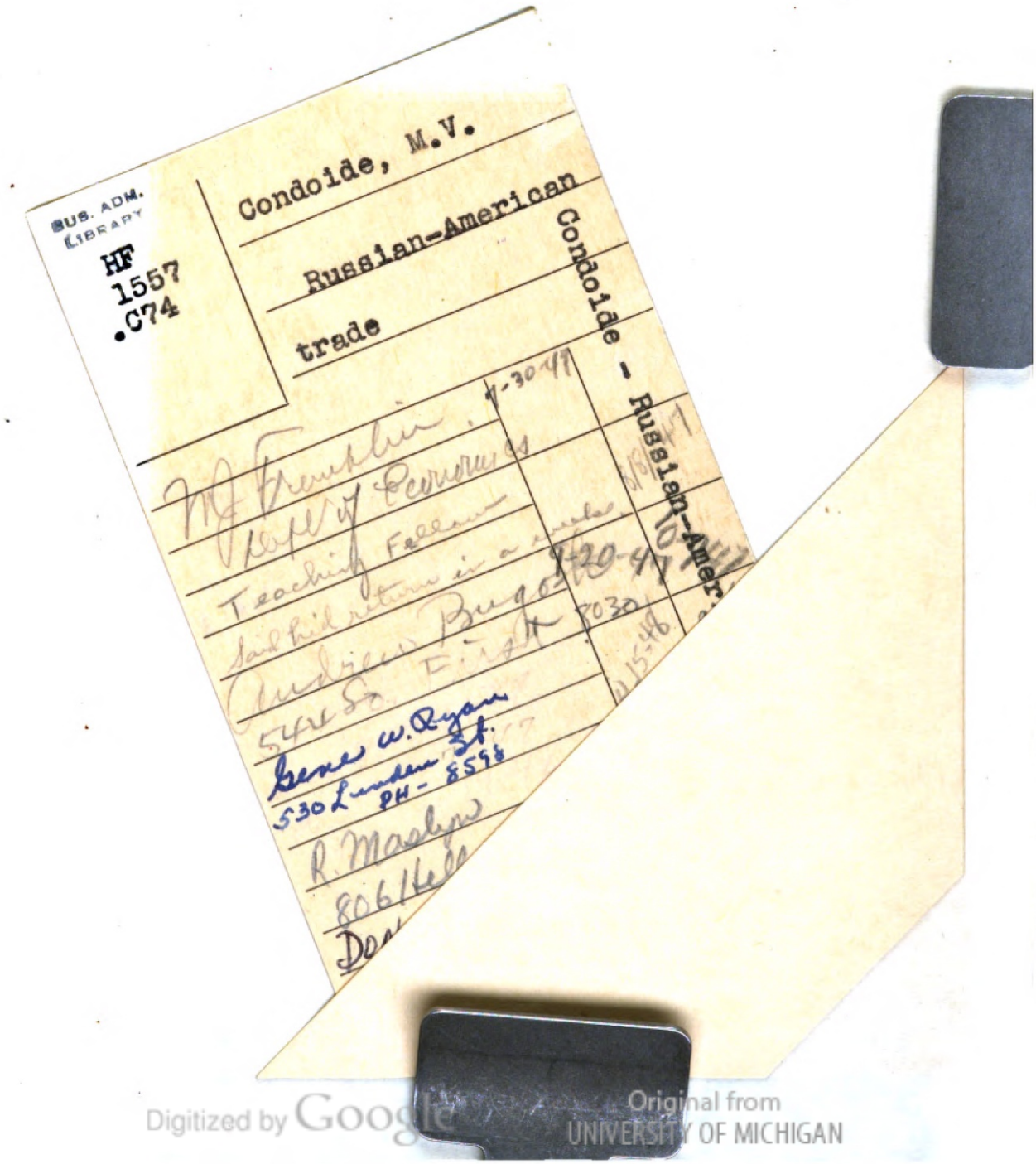

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